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IN THE

# Supreme Court of the United States

OCTOBER TERM, 1972

No. 72-1280

DAMCO TESTERS, INC., and D. A. MILLER
Petitioners

*versus*

SUPERIOR TESTERS, INC.
Respondent

## PETITION FOR WRIT OF CERTIORARI TO UNITED STATES COURT OF APPEALS, FIFTH CIRCUIT

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IN THE
SUPREME COURT OF THE UNITED STATES

October Term 1972

NO. _____

DAMCO TESTERS, INC., and D. A. MILLER
Petitioners

*versus*

SUPERIOR TESTERS, INC.
Respondent

## PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEAL, FIFTH CIRCUIT

The instant application for a writ of certiorari or review is filed herein by Damco Testers, Inc., and D. A. Miller, petitioners, following the decision by the Honorable U. S. Court of Appeals, Fifth Circuit, rendered per curiam on November 24, 1972, affirming without decision the prior judgments of the Honorable United States District Court for the Eastern District of Louisiana, Division "C".

An application for re-hearing and for re-hearing en banc was filed timely, and on February 8, 1973, the application for re-hearing and re-hearing en banc was denied.

## LOWER COURT OPINIONS

This case was tried as a three phase patent case. The opinion of the Trial Court on the injunction phase is found at 309 F. Supp. 661 (E.D. La., 1970), copy of which is annexed hereto as Exhibit B. The opinion of the Trial Court on reconsideration of its original opinion is found at 315 F. Supp.

934 (E.D. La., 1970), copy of which is annexed hereto as Exhibit C. The opinion of the Trial Court on the contempt phase or on the damages phase is not in the federal reporter system, however, copies thereof are annexed hereto as Exhibit D and E. The per curiam decree of the Honorable United States Court of Appeals, Fifth Circuit, is not yet found in the federal reporter system; however, copy of the said per curiam is annexed hereto and is marked Exhibit F. Copy of the denial of the application for rehearing is annexed hereto and is marked Exhibit G.

## JURISDICTION

The jurisdiction of this Honorable Court is invoked under Title 28 U.S. Code, Section 1254 and Section 1651, seeking to review the judgment of the Honorable United States Court of Appeals, Fifth Circuit, handed down per curiam on November 24, 1972. An application for re-hearing and re-hearing en banc was timely filed, and on February 8, 1973, said application for re-hearing was denied. This application for a writ of certiorari or review is timely under the provisions of 28 U.S. Code, Section 2101 (c). Application for stay of mandate of judgment has been filed under the provisions of Rule 41, Federal Rules of Appellate Procedure.

## PRINCIPLES AND STATUTES INVOLVED

The principles involved herein are those enunciated by the jurisprudence of this Honorable Court to the effect that a patent should not be expanded by a contract, because to do so would violate the anti-trust laws. See *Lear v. Adkins*, 395 U.S., 653, 89 S.Ct., 1902, 23 L.Ed.2d 610 (1969); *Sears-Roebuck & Co., vs. Stiffel Co.*, 376 U.S. 225, 84 S.Ct., 784 (1964); *Blonder-Tongue Lab., Inc. v. University of Illinois Found.*, 402 U.S., 313, 91 S.Ct., 1434 (1971). The only statute involved is

35 U.S. Code, Section 284 relative to the award of damages to a patent holder for infringement.

## QUESTIONS PRESENTED FOR REVIEW

The questions presented for review are as follows:

(a) Whether a patent can be expanded by a stipulation entered into erroeneously or inadvertently in the course of litigation, thus presenting for review the question of whether the stipulation should be set aside where it may inflict manifest injustice.

(b) In the event plaintiff is entitled to recover any damages from the defendants the damages award should have been limited to a reasonable royalty, under 35 U.S.C., § 284, and inasmuch as there was a great deal of other competition in the field neither the lost profits of the plaintiff nor the profits of the infringer could be used as a basis of an award for damages.

## STATEMENT OF THE CASE

This suit was filed April 1, 1969, in the U. S. District Court for the Eastern District of Louisiana, wherein Superior Testers, Inc., contended that it had an exclusive license to the three (3) Potts patents for Louisiana, Mississippi and the adjoining offshore area, that Damco Testers, Inc., was violating its alleged exclusive license, and claiming damages for the contract violation, patent infringement, unfair competition, etc., from Damco Testers, Inc., Brown Oil Tools (the original assignor of Superior's license rights) and miscellaneous third persons who were generally officers, stockholders, directors and

employees of Damco Testers, Inc. The case developed and was tried as a three phase patent case, involving trials for (1) the injunction, (2) the contempt, and (3) damages. Following the first hearing on the request for an injunction, all parties were dismissed as defendants except Damco Testers, Inc., hereinafter referred to as Damco, and D. A. Miller, hereinafter referred to as Miller and an injunction was issued against both Damco and Miller restraining and enjoining them from using the tool known as the Brown tool or the Superior tool, and which was licensed to plaintiff by an assignee of U. S. Patent No. 2,953,919, hereinafter sometimes referred to as the Potts patent. On December 18, 1969, the lower court found that it had jurisdiction of the case, that the license of February 1, 1966 from Brown Oil Tools to Superior Testers, Inc., which was originally non-exclusive was made exclusive by the Brown letter on January 15, 1959, that the said license included the States of Louisiana and Mississippi and the adjoining offshore area (although the letter on January 15, 1969, only made it exclusive as to Louisiana and Mississippi), that defendants Damco and Miller were violating Superior's license and that a permanent injunction should, therefore, issue.

During the course of the injunction hearing (the first phase), counsel for defendants Damco and Miller stipulated that the bottom tool which Damco was then using was the same bottom tool as the Brown bottom tool or the Superior bottom tool and which was covered by the Potts patent. On December 4, 1970, counsel for defendants Damco and Miller filed a motion for leave to withdraw their stipulation of coverage as to the tool, to amend their answer and the pre-trial order to eliminate the stipulation by counsel that the Damco bottom tool was the same tool as the Brown bottom tool or the Superior bottom tool. This motion was taken up with a motion to adjudge defendants Damco and Miller in contempt for violation of the injunction of December 18, 1969. The contempt hearing (the second phase) related almost exclusively

to whether Damco had used a Superior tool or Brown tool on certain pipe-testing jobs, or whether it was using its own Damco bottom tool with swab cups. The Court also considered the motion to withdraw the stipulation of coverage at the same time. Judgment was rendered on February 18, 1971, finding defendants Damco and Miller to be in contempt for violations of the injunction of December 18, 1969, and refusing to permit the withdrawal of the stipulation. On June 30, 1971, a money judgment against defendants Damco and Miller was rendered by the Court for $28,159.42 for damages for the contempt and for attorney's fees in connection with the contempt hearing.

The damages hearing (third phase) occurred on July 6, 7, 8 and 9, 1971, and resulted in a money judgment being rendered against both defendants Damco and Miller for the sum of $150,000.00, interest and costs. Supercedeas was posted by the said defendants, and all judgments were appealed to the United States Court of Appeals, Fifth Circuit, which latter court affirmed the Trial Court by Per Curiam rendered November 24, 1972. Application for rehearing and for rehearing en banc was denied by the Honorable Fifth Circuit Court of Appeals on February 8, 1973.

Inasmuch as the Honorable United States Court of Appeals, Fifth Circuit, affirmed the Trial Court by Per Curiam and without comment, we will hereafter refer only to the decision of the Trial Judge.

## (a) THE INJUNCTION PHASE

Darwin A. Miller, one of the defendants herein, worked for Brown Oil Tools from 1958 through December of 1965 (A. 1724-25). Miller began to manage Brown's pipe-testing department in 1964 (A. 1724). While Miller was employed by

Brown Oil Tools, his competitors in the pipe-testing business were Loomis, Hydrostatic Engineers, and Hydro Test (A. 1727). After Mr. Brown of Brown Oil Tools agreed to sell the pipe-testing department to Miller (A. 1729), Miller and Lee Matherne got together on the incorporation of Superior Testers. Miller and Matherne formed Superior Testers, Inc., by articles of incorporation in the month of January 1966 (A. 1728, See Exhibit 1). Superior Testers, Inc., was formed for the purpose of buying the pipe-testing equipment and operation of Brown Oil Tools in Louisiana (A. 1730). Miller contacted Matherne because he didn't have any money to buy the pipe-testing business (A. 1730). The stock was originally divided equally between Miller and Lee Matherne, each of whom took ten shares; however, the third incorporator was Matherne's wife who was given two shares (A. 1730). Matherne was the President and responsible for all financing of Superior Testers, and he, Miller, was the Vice-President and General Manager (A. 1733).

After Superior acquired Brown's equipment, Brown Oil Tools went out of the pipe-testing business (A. 1743). Superior acquired a non-exclusive license from Brown in the course of the sale of the equipment (A. 1745 – See Exhibit P-4, A. 23-25). Miller denied there was ever any amendment of the Superior-Brown agreement to make it exclusive while he was actively employed by Superior (A. 1749).

The original license and/or franchise agreement from Brown to superior on a non-exclusive basis was acquired for the sum of $115,000.00, and the payment of a royalty of 1½% per month on the gross sales (See Exhibit "A", A. 13-18).

On November 18, 1968, Matherne relieved Miller as General Manager (A. 1754, 3228-31). Although there appears to be a conflict as to whether Miller was fired as General Manager or whether he voluntarily left his position as General Manager

of Superior, we believe that the conclusion is inescapable the Miller was relieved of his duties as General Manager by Matherne on November 18, 1968 (A. 1754, 1860), but his salary was not discontinued until mid-December of 1968.

Thereafter, Miller contacted several friends and acquaintances, and on or about December 27, 1968, Damco Testers was incorporated (See Exhibit P-11). Damco began to make tools about mid-January of 1969 (A. 1791) and Miller began to solicit business for Damco about March 14, 1969 (A. 1836).

Apparently Matherne and Miller had some differences about the management of Superior Testers, Inc., prior to November 1968. Matherne contended that Miller was purchasing hoses and other equipment from Houma Tool House at prices that were excessive (A. 1861), and he also thought that Miller spent too much money on labor (A. 1969). Matherne testified that he thought it was necessary to relieve Miller as General Manager to run the corporation properly (A. 1918).

Superior originally acquired six (6) hydraulic units from Brown when it bought Brown's pipe-testing department (A. 1832). At the time Miller was terminated as General Manager in November of 1968, Superior had sixteen (16) units. When Matherne subsequently sold Superior's assets to Statco on March 27, 1970, Superior still only had sixteen (16) units, one of which had been lost overboard (A. 3042).

Miller testified that on November 18, 1968, Matherne told him that he would take over the company, run it, and "show you how to make money with it" (A. 1883). Matherne also testified that he was going to take over the management of Superior Testers, Inc., and give it a better profit margin (A. 1916). He thought Miller was paying too much for certain

equipment and had too much labor around the place (A. 1901, 1916); but after Mathern took over the management of the company, all he did was lose sales.

After Miller caused Damco Testers to be organized, he went to Houston to discuss licensing under the Brown patent in the early part of 1969. Damco ultimately acquired the patent rights of Brown Oil Tools by agreement dated February 25, 1969, in which agreement it was subject to the prior license to Superior Testers, Inc. This agreement further indicated that the original non-exclusive Superior license had now been made exclusive as to the States of Louisiana and Mississippi. Joe Brown testified that when Brown Oil Tools licensed Superior and sold its equipment in 1966, thereafter Brown did not test pipe in *any* area, and not just Louisiana, Mississippi or the offshore (A. 2027). Joe Brown further testified that after Superior obtained its original non-exclusive license of February 1, 1966, several phone calls took place concerning making the license exclusive (A. 2038). Brown denied the existence of any letter as to exclusive licensing of Superior prior to the letter of January 15, 1969 (A. 2041). Apparently when Brown was questioned about making the license exclusive following the 1966 agreement, he apparently evaded the issue of exclusiveness (A. 2039), until January of 1969; however, he testified that he felt morally that he should give Superior "a license that would protect them in the States of Louisiana and Mississippi" (A. 2036). Brown stated that he did not intend to license others to compete with Superior and that he didn't intend to compete with Superior (A. 2055).

Testimony of both Joe Brown (A. 2023-2049), and Mr. Cochran (his house lawyer) (A. 2050-2064) confirms the general lack of discussion about the offshore area at the time of the 1966 license. Brown particularly confirmed a lack of discussion with Matherne relative to the exclusive in the Gulf of

Mexico (A. 2018). Brown further confirmed that he had formerly granted 65 license agreements between February 1, 1964 and February 1968, other than the one which he gave to Superior and made exclusive in January of 1969 (A. 2029). Brown testified that he gave Superior the exclusive because of their concern over the States of Louisiana and Mississippi (A.2036). He further confirmed that he received no consideration for the letter of January 16, 1969 (A. 2044).

Matherne heard that Damco Testers, Inc., had been formed in the early part of January of 1969 (A. 1907). After he heard that Damco was formed, he began to look for the alleged exclusive letter from Brown Oil Tools (A. 1907). Matherne contended that he could not find the letter, nor could he get a copy of it from Brown (A. 1908). After Matherne could get no response from Brown about the allegedly missing letter, he flew to Houston in his company plane and picked up the letter now identified as Exhibit 7 and dated January 15, 1969, signed by J. R. Brown, to Superior Testers, Inc., (A. 47), in which letter the Superior license is made exclusive as to the States of Louisiana and Mississippi (A. 1909, 1910). Miller testified that he thought Superior had a non-exclusive license in late January 1969 (A. 1809). Shortly thereafter, Miller found out about the claims of Superior as to its claim of an exclusive license for the States of Louisiana and Mississippi, by letter addressed to him from Superior dated January 17, 1969 (A. 48).

At the time of the purchase of the patent from Brown by Damco, reference was contained therein to the alleged exclusive of Superior as to the States of Louisiana and Mississippi (A. 19, Exhibit "B"). Damco began to make pipe-testing equipment in Louisiana during the early part of 1969 (A. 1791), and began to perform services during the latter part of March of 1969 (A. 1836). This suit was filed April 1, 1969.

During the trial Matherne made accusations of Damco using mostly all of Superior's personnel, calling on the same customers, and using the same tool (A. 1911, 1950, 1958). Insofar as the Superior employees were concerned, Matherne had to admit that he fired Mrs. Deal on December 24, 1968, and Ray Tillett in January of 1969 (A. 1964). Matherne further contended that Superior lost Tenneco Oil Company, and Chevron Oil Company as customers immediatley after Damco was organized (A. 1950, 1958) – but we must hasten to point out that Superior lost these customers before Damco even started to do business (A. 1958).

During the first hearing at the trial for the injunction the plaintiff contended that its license as to Louisiana and Mississippi included the offshore area. However, the letter of January 15, 1969, written by Brown, specifically refers to Louisiana and Mississippi only. Where is the ambiguity in the description of Louisiana and Mississippi so as to permit the introduction of any oral testimony which may tend to alter, amend, or vary the terms of the written license or amendment?

At the conclusion of the first hearing, the Trial Court issued an injunction restraining and enjoining the defendants Damco and Miller from using the patented equipment that is the subject matter of this suit (known primarily as the Brown bottom tool) and being utilized under Patent No. 2,953,919. The Trial Court further found that it had jurisdiction, that the license of February 1, 1966, from Brown Oil Tools to Superior Testers, Inc., was made exclusive by the letter of January 15, 1969, that the alleged exclusive license was intended to include the States of Louisiana, Mississippi and the adjoining offshore area, and that the defendants, Damco and Miller, were violating Superior's license, and that a permanent injunction should issue. All remaining individual defendants were dismissed.

## (b) THE CONTEMPT PHASE AND THE STIPULATION

Although we believe there is considerable question as to the reliability of some of the witnesses who testified concerning the alleged violation of the injunction, we readily recognize that the admissions of two of Damco's employees, namely, Strickland and Kibodeaux, that they converted the Brown top tool into a bottom tool after December 18, 1969, required a finding of contempt as to Damco. The crucial portions of the testimony of the other witnesses on the contempt hearing related to whether on several certain Damco jobs the Brown bottom tool or Superior bottom tool was used after the injunction was issued. Most of Damco's other employees who testified stated that they were using a new Damco bottom tool which had not yet been patented, the externally visible distinction between the Damco bottom tool and the Brown or Superior tool being that the Damco tool had two swab cups on its exterior. Defendant's witnesses contended that when Matherne or any of his people came out to a rig that Damco was doing a pipe-test job on, they put their tools away because they were instructed to do so by Mr. Miller. Miller's instructions were predicated upon the fact that the Damco bottom tool was a new tool which had not yet been patented, and his people were instructed not to exhibit this tool in the presence of Mr. Matherne or any of Superior's then employees. Two of Damco's employees testified that they converted a Brown top tool into a Brown bottom tool on the job, namely, Strickland and Kibodeaux; however, both of these employees further testified that the conversion to the Brown bottom tool from the Brown top tool was done entirely on their own (A. 2355, 2718). When an employee of Damco testifies that he converted a Brown top tool into a Brown bottom tool on his own, and without the knowledge of his employer, a technical violation of the injunction did occur; however, considering that these employees did the conversion on their own, we respectfully submit that

the employer should not be cast in judgment for excessive damages because of the unauthorized acts of the employees. We respectfully submit that plaintiff is entitled to recover only its actual pecuniary loss because of the contempt. See *In Re: Independent Publishing Co.*, 228 Fed. 787 (N.D. Mont.); *Bigelow v. R.K.O.*, 78 F. Supp. 250 (E.D., Ill., 1948) app., 170 F. 2d 783 (7th Cir., 1948); *Fletcher Cyclopedia Corporations*, Vol. 10, Sec. 5070, p. 841, et seq.

In the contempt judgment, the Court also found that the defendants could not withdraw the stipulation which their then counsel had so inadvertently agreed to. During the course of the first hearing, the defendants, Damco and Miller, stipulated that the pipe-testing tools used by Damco after it began to do business was the same tool covered by the Potts Patent (or the same tool as the Brown tool). The stipulation occurred in the course of the hearing as follows:

> A. 1793 – Torres stipulated that "the equipment had the same appearance for all intents and purposes, its essentially the same equipment, we do not have any different equipment."
>
> A. 2167 – Torres stipulated "that tool and the Superior tool are the same tool."
>
> A. 2187 – During the course of the deposition of D. A. Miller, he answered that the equipment he was using was under the three patents. Thereafter, Torres offered to shorten the questioning on the deposition and stated: "We are willing to stipulate the tools which Mr. Miller and Damco makes are covered by the patents. The stipulation was further be reference to the term "makes and uses". (A. 2189, 2190).

A. 2192 – Torres stated that he will again stipulate that Mr. Miller and Damco Testers used tools covered by the patents in question."

A. 193, 196 – In the pre-trial order wherein it was stipulated that Damco has made testing tools covered by one of the three Brown patents, U.S. patent No. 2,953,919, and that Damco uses and has used testing tools covered by the said Brown patent to test pipe at locations within the State of Louisiana and in a contiguous offshore areas in the Gulf of Mexico, and that the structural characteristics of all testing tools made and used by defendant Damco are the testing tools identified as being covered by the Brown patents.

Commencing with a motion filed December 4, 1970, (A. 350), defendants Damco and Miller have been attempting to set aside the stipulation, and to amend their answer and pre-trial order. Defendants filed a motion to withdraw the stipulation and amend their answer on December 4, 1970, (A. 350) and another motion to rescind or modify the injunction on June 7, 1971 based upon the erroneous stipulation (A. 449). During the proffered testimony of an expert witness, Sam Scrivener, who is both a patent attorney and an engineer, at the damage hearing (A. 3103-3118), the Trial Court refused to permit his testimony in connection with the defendants' attempt to withdraw the stipulation; however, the Court indicated that it would accept tenders of evidence that it considered inadmissible so that the record would be complete (A. 3107). Although all of the attempts to set the stipulation aside have been unsuccessful (A. 386, 3117-18), we did proffer affidavits of both Carlos Torres (A. 460, 461) the patent attorney then handling the case, relative to his mistake, error and/or inadvertence, as well as an affidavit of Samuel Scrivener (A. 462-467) patent attorney and engineer, attesting to the fact that the Damco tool was not

covered by the Brown (Potts) patent. This latter affidavit clearly indicates that the Damco tool is not covered by the Potts patent, and that manifest injustice would be committed if this injunction, damages judgment and contempt judgment were permitted to stand. Reference to the Potts patent annexed to Scrivener's affidavit clearly discloses that when the Potts application for patent was in the patent office, it was rejected by the examiner on the ground of other earlier patents showing a single conduit tool, and that Potts was not entitled to a patent merely because he provided two conduits instead of one. Potts apparently argued that great advantages resulted from his two conduit construction and he was entitled to a patent because he had invented a tool having two conduits instead of one. Scrivener's affidavit then concludes:

> "The conclusion is therefore inescapable that all of the claims of the Potts patents are restricted by their wording and by the history of the Potts patent to a pipe-testing tool having *two* independent longitudinal passages, through one of which fluid under pressure flows to the two seal-actuating chambers and through the other of which fluid flows to the space between the tool and the pipe and which is sealed by the two seals.
>
> "The Damco tool does not have the second of these two independent longitudinal passages and it is therefore my opinion that it does not infringe Potts patent No. 2,953,919." (A. 467).

Defendants' counsel sought to set aside the stipulation by motion wherein defendants then patent counsel set forth that until Monday, November 30, 1970, he "had failed to realize that internal components of the testing apparatus manufactured by defendant Damco included only a single conduit means of extending through its body and that each of the claims of U. S.

Patent No. 2,953,919, the principal patent in suit, required the presence of the first and second conduit means extending through the body." The hearings herein were as follows:

September 29-30, 1969 – The Injunction – resulting in the order of December 18, 1969.

December 7, 8, 9, 1970 – The Contempt Hearing – resulting in the order of February 18, 1971.

July 6, 7, 8, 9, 1971 – The Damages Hearing – resulting in the money judgment of November 24, 1971.

It thus becomes readily apparent that counsel for defendants became aware of his error on November 30, 1970, and immediately thereafter filed a motion seeking to rectify the same. The motion was filed before the contempt hearing and eight months before the damages hearing; however, the Trial Court would have no part of setting aside the stipulation.

We would fully agree that stipulations or agreements are not made to be broken or disregarded. However, it is clear that here the original stipulation was erroneously entered into and that a judgment or judgments based upon such an erroneous stipulation should be set aside so as to prevent manifest injustice.

## (c) THE DAMAGES PHASE

Plaintiff, Superior Testers, Inc., contends that it is entitled to profits which it lost as well as profits of the alleged infringer, Damco. In this connection, Superior offered in evidence various exhibits prepared by the Special Master and by Superior's accountant showing a decline in gross sales between 1969 and 1968, and great loss of profits. We do not deny that Superior lost both gross sales and profits during the year of 1969;

however, we do seriously dispute that the Superior's decline in gross sales in 1969 was attributable solely to Damco or even substantially to Damco. We would admit that Damco's entry into the pipe-testing business beginning April 1, 1969 had some effect on Superior's decline in gross sales and loss of profits – but how much effect the alleged infringement or contract violation had is the question!!!

We respectfully submit that most of Superior's decline in sales was due to other competition in the pipe-testing business. Superior's president, Matherne, admitted on cross-examination that there were other pipe-testing companies who were Superior's competitors in the business in 1969 (A. 3243). Matherne also admitted that he had seen the tools of Loomis, Hydro-Test and Hydrostatic in Operation, as well as the Gator-Hawk Tool (A. 3244-6). But Matherne apparently still blamed Damco for his loss of sales volume (A. 3214-5).

In order to substantiate the existence of competition in the pipe-testing business, defendant, Damco, took the testimony of various managerial personnel of their competitors. The deposition of R. E. Sjoberg, Division Manager of the Gulf Coast Division of Hydro-Test, Inc., was taken for purposes of perpetuation and clearly set forth that his company operated in the south Louisiana and offshore area in 1969, during the critical period in question (A. 825-826). Sjoberg further testified that Hydro-Test was a competitor of Superior and Damco and that his company generally sold to the same type of pipe-testing customers as did those companies (A. 831). He further testified that he would today consider his company a competitor of Gator-Hawk External Testers, although that company used an external pipe-tester as distinguished from the internal pipe-testing device used by Hydro-Test (A. 832-833). Sjoberg further stated that the prices charged by Hydro-Test were competitive with the prices of other pipe-testers (A. 836

and Exhibit marked "Sjoberg 2" at A. 855). He further testified that Hydro-Test did business during the period in question with Shell Oil, Continental Oil, Pan American, Gulf Oil and other major oil companies in the South Louisiana area (A. 838).

Sjoberg further testified as to significant factors which obtained sales as follows:

(a) Amount of money spent on a potential customer.
(b) The job that the testing company gives.
(c) The amount of trouble on prior jobs.
(d) Reputation of the testing company.
(e) Availability of equipment.
(f) Type of operator (A. 847, 848).

Mr. Don Ross, Assistant Division Manager of Hydro-Test, Inc., generally substantiated the testimony of Mr. Sjoberg (A. 861, 862).

Defendants Damco and Miller, also took the testimony of Malvern Hascha by deposition for purposes of perpetuation. Mr. Hascha is the President of Gator-Hawk External Testers, Inc., which company uses an external pipe-tester (A. 870, 871). Hascha described the business area in which his company did their business as mostly south Louisiana and the offshore area (A. 873, 874). Hascha also indicated that he would consider his company to be a competitor of Superior, Damco, Loomis, Hydro-Test, and Hydrostatic Engineers (A. 876, 877). Hascha further confirmed that his company did business with Shell Oil Company, Chevron Oil Company, Humble Oil & Refining, Pan American Oil Co., Signal Oil Co., Gulf Oil Company, and other companies designated on the list marked "Hascha 1" for identification (A. 878, 898). Hascha also identified a report of the experiences of his company in detecting pipe-testing leaks by external pipe-testers, identified as Exhibit "Hascha 2" (A.

878).

Hascha further indicated that Gator-Hawk External Testers went into the external testing business during the first part of 1969 (A. 880). WE HASTEN TO POINT OUT HERE THAT DAMCO WAS INCORPORATED DECEMBER 1968, AND FIRST COMMENCED DOING BUSINESS IN THE EARLY PART OF APRIL OF 1969.

Hascha further indicated that he felt that his external tester was better than the internal tester used by both Superior and Damco (A. 882, 883), and that he considers the external tester to put out a better test (A. 883). Hascha further indicated that the prices charged by his company for the external pipe-testing tool were generally higher than those charged by the competition (A. 885).

Hascha listed as to significant factors concerning employment of his company as follows:

(a) The tool to get the job done.
(b) Keeping equipment in tip-top condition.
(c) Entertainment of customers (A. 894, 895).
(d) Operators of equipment (A. 896).

Defendants also took the testimony of Lloyd Rathburn, President and former General Manager of Loomis Hydraulic Testing Co., Inc., in south Louisiana by deposition for purposes of perpetuation (A. 924-925). Rathburn testified that his company performed pipe-testing services in the south Louisiana off-shore area (A. 926-927), and that they were competitors of Superior, Damco, Hydro-Test, Hydrostatic Engineers, and Gator-Hawk in the pipe-testing field (A. 930-933). He described the tool used by Loomis as an internal pipe-testing tool (A. 932).

When Rathburn was asked about what caused his company to make sales or lose sales, he replied "service rendered." (A. 941). When Rathburn was asked about reasons for a customer choosing one pipe-testing company over another, he again replied "* * * services, as far as I am concerned" (A. 943). Even Matherne had to admit that the customer didn't care what kind of pipe-testing tool was used, as long as he got a good pipe-testing job (A. 3261).

A good bit of testimony was sought to be elicited about the condition of the Superior equipment in 1969 and the early part of 1970, before Superior sold out to Statco, and the condition of the Superior equipment when Statco bought it. Testimony of witnesses who worked for Superior in 1969 and the early part of 1970 clearly indicated that Matherne did not maintain the pipe-testing equipment of Superior after Miller's employment was terminated. For example, testimony of H. C. Laughlin, a former salesman of Superior, clearly indicated that after Miller's employment was terminated, Superior's equipment was permitted to run down, Superior was run off of various jobs, and Laughlin, a salesman, couldn't sell pipe-testing jobs for Superior (A. 3089-3102). Likewise, testimony of Pete Lewis, a former Loomis employee, indicated that after Miller was terminated by Superior, the Loomis sales in the Grand Isle area increased materially (A. 3075). Lewis further substantiated the poor condition of the Superior equipment in January of 1970 (A. 3077-8).

Testimony of Ken Webb (A. 3051) and Curtis McKnight (A. 3083), stipulated to as cumulative of the testimony of Lawrence Hill relative to the condition of the Superior equipment, indicated that the Superior equipment had run down considerable during the year of 1969 and the early part of 1970. Testimony of Lawrence Hill, a former stockholder of Statco, Inc., which corporation acquired the assets of Superior

Testers, Inc., on March 17, 1970, was to the effect that most of the Superior pipe-testing equipment was unusable without the expenditure of substantial sums. Hill testified that he had to buy ten to twelve new pressure hoses to replace existing hoses alone on Superior hydraulic units within the first thirty days after Statco took over (A. 3043, 3044). Hill further testified that Statco purchased sixteen (16) units of which only four (4) were completely operable (A. 3043, 43). Hill further testified that three (3) additional units were in fair condition, one had been dropped overboard before he got it, and the remaining eight (8) could only be used for spare parts (A. 3043). Even Matherne claims that he sold out because of the equipment (A. 3228). It is interesting to note that Matherne testified that he didn't agree with Miller spending a good bit of money to maintain the equipment (A. 3237).

Considering the number of witnesses testifying that the equipment of Superior Testers was permitted to run down in the latter part of 1969 and the first part of 1970, there does not appear to be too much doubt about the fact that defendants have conclusively proved that the equipment of Superior Testers was permitted to run down and that it was in poor condition during the latter part of 1969 and the early part of 1970. All of these witnesses coupled with the testimony relative to the competition in the pipe-testing field clearly indicated causes for the decline of Superior Testers in sales of $507,558.48 from 1968 to 1969, other than the alleged infringement or alleged contract violation by Damco.

It is significant to note that defendants produced supervisory employees of various oil company customers of the defendants who testified that what the oil company was interested in was getting the job done. For example, Ed Shell of Signal Oil & Gas Company (A. 3052), Mr. Blankenship of Consolidated Oil & Gas Company (A. 3082) and Ken Ferguson

of Chevron Oil Company (A. 3082) all agreed either in their testimony or by stipulation that the primary thing that the oil company customer was interested in was getting the job done.

Plaintiff contended that it lost gross sales of approximately $550,000.00 in 1969, as compared to 1968, and introduced various exhibits to substantiate loss in gross sales and decline in net profits (See Report of Special Master, Allen B. Koltun, C.P.A., of Arthur Young & Co., dated May 11, 1970, with accompanying exhibits filed as a Supplemental Record or Exhibit). We do not dispute that Superior lost sales and suffered net losses in 1969. We do, however, contend that Superior's net losses and decline in gross sales was not proximately caused solely by Damco. We do contend that Superior's losses were caused by:

(1) Other competition in the pipe-testing field, including the entry of a new-comer into the pipe-testing field with an external pipe-tester;
(2) Superior's failure to maintain its equipment in good operating condition;
(3) Losses due to acquiring poor reputation in the oil-field and difficulty in doing the job on prior jobs;
(4) Losses due to the salesmanship of Miller (of which the Trial Court has taken cognizance);
(5) As well as competition from Damco which would necessarily include the use of the Brown tool.

Matherne would lay the entire blame for Superior's decline in gross sales and loss of profits at the doorstep of Damco and Miller (A. 3246-7). Matherne testified that all of his losses are attributable to Damco and Miller (A. 3247). Matherne would not admit that he had more trouble than usual with equipment break-downs (A. 3247). Matherne also contended that although Superior declined over $500,000.00 in sales and Damco only

did approximately $200,000.00 in sales in 1969, a lot of the customers didn't use Superior or Damco because of not wanting to become involved in the lawsuit (A. 3247). However, all of the testimony proffered by the defendants from competitors as well as former personnel of Superior clearly dispute this contention. For example, Superior's gross sales declined from $980,936.38 in 1968 to $431,657.46 in 1969, showing a decline of $507,558.48. However, Damco commenced business operations in April, 1969, and during the nine month period to the end of 1969, only did a total business of $230,808.64. Could it conceivably be argued that the difference of approximately $276,749.84 in decline in gross sales could be attributable to Damco or Miller? Considering the advent of Gator-Hawk in the pipe-testing business commencing in the early part of 1969, it would seem much more probable that *most* of Superior's decline in gross sales was attributable to other competition in the pipe-testing business. Thus, we respectfully submit that Matherne's argument and contention about Damco proximately causing his decline in gross sales and loss of profits is clearly and undisputably refuted. Even assuming that Damco did infringe illegally (which we vigorously dispute), Matherne and Superior could hardly expect to lay the sole blame for their losses at the doorstep of both Damco and Miller.

In its reasons for judgment, the Trial Court sought to justify its damages award (Supp. App. p. 5,6) and in its original reasons for judgment, the Tiral Court sought to do basically the same thing (A. 3370-71). As can readily be seen, the Trial Court encounters difficulty in the determination of damages by comparing both the oral reasons for judgment rendered at the conclusion of the damage phase and the written reasons for judgment. In the first place, the Trial Court makes no allowance whatever for any losses of Superior due to other competitors. In the second place, the Trial Court completely miscalculated

Damco's profits. At page 6 of the Supplemental Appendix, the Trial Court stated that Damco realized profits of $226,000.00 during the period in question – during the entire period in question, Damco only did a total *gross volume* of business of $230,808.64.

The Trial Court further found that a reasonable royalty on the gross proceeds of the testing business would yield approximately $110,000.00 to $115,000.00. It would hardly seempossible that a reasonable royalty would amount to approximately 50% of the total gross volume of business of Damco during the period in question – yet this is exactly what the Trial Court stated in its written reasons for judgment.

We do not doubt that Superior lost money during the period between April 1, 1969, and December 18, 1969. What we do respectfully contend is that all of Superior's losses were not attributable to Damco's use of the Brown bottom tool. Other significant factors contributed to Superior's losses, including competition from other competitors besides Damco, poor maintenance of Superior's equipment, difficulties on prior jobs creating a poor reputation in the oil field service business, as well as vigorous competition from Miller, an acknowledged salesman *par excellence*.

It would appear that the Trial Judge had an award of $150,000.00 fixed in his mind and that such an award would be proper for the losses of Superior herein; and it would further appear that the Trial Judge sought to justify this amount in both his oral reasons for judgment immediately after the damage phase of the hearings (A. 3370-71) as well as in his written reasons for judgment (Supp. App., p. 5, 6). We do not believe that the law should sanction the "feel" of the Trial Judge for the amount of damages. The law provides that the only damage recoverable is the amount proximately caused by

the wrongful acts of the defendant (if they be wrongful herein). Assuming that the defendant did act improperly, plaintiff has certainly not carried any burden of proving that a loss of $150,000.00 was attributable to any actions of the defendants. On the contrary, the proof shows that Superior was declining rapidly in gross volume of sales before Damco even entered the pipe-testing field. In the first three months of 1969 Superior's gross volume declined from 1968 to the extent of $28,391.15, before Damco even did a job. In the second quarter of 1969, Superior declined in gross sales from 1968 $128,391.57, but Damco only did a gross volume of $53,717.72. Thereafter, Superior's business declined more, until at the end of the year of 1969 it had declined $507,558.48 (See Exhibit "A" attached hereto). It was showing the effects of all of the other competition, poor maintenance practices, and its frequent break-downs on the job. Even Mr. Laughlin, one of Superior's salesmen, testified that he couldn't sell a job because of their frequent break-downs. How, then, can the Trial Court award such an amount and attribute $150,000.00 of plaintiff's losses to the defendants' alleged illegal use of the tool?

If defendants were in violation of the plaintiff's license rights, then certainly the plaintiff is entitled to be compensated. However, in the absence of proof to show that defendants alleged illegal use of the tool caused its losses, then the amount of plaintiff's award for damages could only be justifiably computed on a reasonable royalty basis. Under these circumstances, we respectfully submit that the award of damages by the Trial Court is illegal, improper and unjustified and should either be recomputed in accordance with the principles of reasonable royalty of 1½% of gross sales of Damco and/or remanded for additional evidence as to what is a reasonable royalty.

## ARGUMENT

### I

### WHERE A STIPULATION HAS BEEN ENTERED INTO ERRONEOUSLY OR INADVERTENTLY, IT SHOULD BE SET ASIDE WHERE IT MAY INFLICT MANIFEST INJUSTICE, AND PARTICULARLY WHERE THE STIPULATION OF COUNSEL RESULTS IN EXPANDED COVERAGE OF THE PATENT

During the course of the first trial herein (by deposition, answers, and pre-trial order), then counsel for defendants, Damco and Miller stipulated that the Brown tool was the same tool as the Damco tool and that the Damco tool and the Brown tool were covered by the Potts patent. Thereafter, following the hearing on the injunction and the contempt trial, defendants sought to withdraw the stipulation as to coverage of the Damco tool by the Potts patent, when it became apparent that the Damco tool was not covered by the Potts patent. Furthermore, defendants contended that the matter of whether the equipment used was or was not covered by the patents should be determined before the contract is enforced, based on considerations of the public policy. Both of these contentions were ignored by the Trial Court in its reasons for judgment.

In connection with the withdrawal of stipulations, generally, the leading case is *Carnegie Steel Co. v. Cambria Iron Co.*, 185 U.S. 403, 22 S.Ct. 698 (1901), a patent case, wherein a stipulation was signed to the effect that the amount of molten metal in defendant's mixer varied from nothing to full capacity, depending on supply and demand. Upon the facts being more fully ascertained, notice was given that the stipulation would be repudiated. In holding that the stipulation could be repudiated, the U. S. Supreme Court stated:

"... Stipulations are ordinarily entered into for the purpose of saving time, trouble, or expense, and in this case is recites that 'as defendant's counsel is expected to sail for Europe in a few days, and may not be back for about four months, it is therefore stipulated by counsel for both parties, to save delay, as follows.' But while the stipulation is undoubtedly admissible in evidence it ought not to be used as a pitfall, and where the facts subsequently developed show, with respect to a particular matter, that it was inadvertently signed, we think that, upon giving notice in sufficient time to prevent prejudice to the opposite party, counsel may repudiate any fact inadvertently incorporated therein. This practice has been frequently upheld in this and other courts.

The *Carnegie* case with reference to withdrawal of stipulations is probably one of the leading cases in this country in connection with this point, the rule of the case having been cited with approval many times. See *Aronstam v. All-Russian Central Union of Consumers' Societies, Inc.*, 270 Fed. 460 (2nd Cir., 1920); *Back v. Farnsworth*, 77 P.2d 295 (Cal. App., 1938); *Harrelson v. United States*, 94 F.2d 192 (4th Cir., 1938).

In *Westinghouse Electric & Mfg. Co. v. Wagner E. Manufacturing Company*, 233 Fed. 752, the Court permitted the withdrawal of the stipulation and stated:

"... The plaintiff was not induced to change its position to its disadvantage. The successful impairment of the probative value of the schedule and the testimony regarding it would be nothing more than the correction of a mistake and the establishment of the truth as to an issue of fact. The stipulation of counsel was not designed even to settle a fact otherwise unproved, or to dispense with the taking of evidence which afterwards appeared to have

escaped the reach of the parties. It was simply an agreement of convenience to obviate an unnecessary cost of printing. If in fact it proceeded upon a mistake or inadvertence, the defendant should have been allowed to correct it under the circumstances of the case."

In *Miller v. Schafer*, 432 P.2d 585, a stipulation was entered into in connection with certain hospital records which, upon examination, disclosed the existence of workmen's compensation insurance. Although the hospital records were stipulated, the appellate court would not penalize plaintiff's counsel for his inadvertent stipulation containing the objectionable document, and stated:

"We are not inclined to penalize an attorney who makes an inadvertent stipulation which he discovers and tried to correct before any damage has been done. The rules applicable to such a situation do not exist to award the verdict to the lawyer who plays the game most adroitly. The presence of the particular report in the hospital file was somewhat of a surprise to plaintiff's attorney, and when its nature was realized, he promptly sought to keep the letter out of the record. The situation is covered by our language in re Brandt's Estate, 67 Ariz. 42, 190 P.2d 497 in which we said:

" 'A stipulation must be construed in the light of the circumstances surrounding the parties and in view of the result which they were attempting to accomplish. In seeking the intent of the parties the language used will not be so construed as to give it the effect of an admission of fact obviously intended to be controverted, or the waiver of a right not intended to be relinquished.' "

The Trial Court refused to permit the withdrawal of the stipulation complained of herein, citing several decisions. In *Laird v. Air Carrier Engine Service,* 263 F.2d 948 (5th Cir., 1949) relied upon by the trial court herein, the stipulation was made in connection with a jury case, and the Court permitted the defendants to introduce testimony contra to the stipulation, which appeared to catch the plaintiff's counsel flat-footed. The Fifth Circuit Court of Appeals indicated that since the trial court permitted the defendants to introduce testimony contrary to the stipulation, that the result of the trial was unfair, and a new trial was ordered. The Court discusses the question of stipulations and withdrawal at length in this decision and ultimately decides the issue of stipulation, withdrawal, etc., on a basis of fairness.

In *Brinson v. Tomlinson,* 264 F.2d 30 (5th Cir., 1959), also cited by the Trial Court herein, the Court refused to set aside a stipulation originally suggested by plaintiff's counsel where its provisions were carefully considered on each side before agreement was reached, and there was no claim that anything had been inadvertently included or that any over-reaching or fraud was involved. This was a tax refund case with a strong dissent.

In *Henry v. Commissioner of Internal Revenue,* 362 F.2d 640 (5th Cir., 1966), also relied upon by the Trial Judge herein, the taxpayer sought to repudiate a stipulation and the Court declined to do so because no evidence of manifest injustice was present.

In *Associated Beverages Co. v. P. Ballantine & Sons,* 287 F.2d 261 (5th Cir., 1961), also cited approvingly by the Trial Court, a brewer sued his distributor for a balance due on open account, and the distributor counterclaimed on the grounds of violation of the anti-trust laws. The Court refused to permit the

setting aside of the stipulation, analyzed the purpose of seeking to undo the stipulation, and stated:

> "While the court always has the responsibility to cut a litigant from the snares and tangles of a procedural trap, whether it be created by his own or another's doings in order to prevent manifest injustice, the court's duty is equally clear to give full force and effect to the commitments of counsel duly and voluntarily made as to the truth of simple facts. . . .
>
> "Ambiguities in stipulations, as in the case of other agreements, may be removed and the intention of the parties may be determined by judicial construction, but the courts cannot, under the guise of construction, insert into an agreement an essential element such as the subject matter to which the agreement shall apply. Such a defect cannot be remedied by any conduct of the parties which falls short of an agreement of itself, or an estoppel; *nor can such a deficiency be supplied* by one party without the assent of the other, whether attempted by testimony or otherwise." (Emphasis added.)

All of the cases cited by the Trial Court herein from the Fifth Circuit clearly indicate that an analysis was made by the Court to determine whether the evidence proffered to vary the stipulation would in fact or in law vary the result reached by the Trial Court. In virtually all of the cases in which the stipulation was not permitted to be repudiated, the Court found that the evidence proffered would *not* have changed the result. We respectfully call Your Honors' attention to the fact that the Trial Court herein did not voice any opinion on whether the evidence proffered would have changed the result, nor did the Trial Court herein analyze the evidence proffered herein to determine whether it would have changed the result. In fact, the

Trial Court herein specifically reserved the rights of defendant Damco to challenge the validity of the patent in other proceedings, but held, in essence, that the coverage of the patent herein was precluded by the stipulation. This is the error of which we complain; because, if the Brown tool or Damco tool was not covered by the Potts patent, there could be no license violation for patent infringement. Furthermore, there is a public policy which exists relative to licensing within the license agreement things not covered by the patent, which in turn would be violative of the anti-trust laws. Defendant, Damco, contended in its motion that the equipment described in the contract is different from the unpatented, non-infringing equipment which had been used by Damco and that its earlier stipulation to the contrary was based on mistake of counsel. Damco further contended that if the contract was construed to cover unpatented equipment, it was an illegal contract and was voidable and unenforceable. Damco contends that the matter of whether the equipment used was or was not covered by the patent must be determined before the contract is enforced, based on considerations of public policy and established court rulings. See *Scott Paper Co. v. Marcalus Mfg. Co., Inc.*, 326 U.S. 249, 66 S.Ct. 101, 90 L.Ed. 47, 1945; *Lear v. Adkins*, 395 U.S. 653, 89 S.Ct., 1902, 23 L.Ed. 2d 610, 1969; *Mercoid Corp. v. Mid-Continent Co.*, 320 U.S., 661, 64 S.Ct., 268, 88 L.Ed., 376 (1944).

## CAN A STIPULATION OF COUNSEL EXPAND COVERAGE OF A PATENT? ? ? ?

The decision of *Carbice Corporation v. American Patents Development Corporation*, 283 U.S. 27, 51 S.Ct., 334, 75 L.Ed. 819 (1931), originally held that a patent could not be expanded so that a license agreement included

therein a requirement that unpatented materials which were not included within the patent be purchased from the licensor. See also *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 37 S. Ct., 416, 61 L.Ed. 871 (1918); *Leitch Mfg. Co. v. Barber*, 302 U.S. 458, 58 S.Ct. 288, 82 L.Ed. 371 (1938).

In *Mercoid Corp. v. Mid-Continent Investment Co.*, 320 U.S. 661, 64 S.Ct. 268, 88 L.Ed. 376 (1944), the U.S. Supreme Court held that a license going beyond the patent to include therein unpatented items constitutes misuse of the patent and bars the claim for damages for contributory infringement. In *Mercoid* the Court stated:

> "The grant of a patent is the grant of a special privilege 'to promote the Progress of Science and useful Arts.' Const. Art. 7, §8. It carries, of course, a right to be free from competition in the practice of the invention. But the limits of the patent are narrowly and stictly confined to the precise terms of the grant. *Ethyl Gasoline Corp. v. United States*, 309 U.S. 436, 456, 60 S.Ct. 618, 625, 84 L.Ed. 852; *United States v. Univis Lens Co.*, 316 U.S. 241, 251, 62 S. Ct. 1088, 1093, 86 L.Ed. 1408. It is the public interest which is dominant in the patent system. *Pennock v. Dialogue*, 2 Pet. 1, 7 L. Ed. 327; *Kendall v. Windsor*, 21 How. 322, 329, 16 L.Ed. 165; *Adams v. Burke*, 17 Wall. 453, 21 L. Ed. 700; *Motion Picture Co. v. Universal Film Co.*, supra, 243 U.S. pages 510, 511, 37 S.Ct. p. 418, 61 L.Ed. 871, L.R.A. 1917 E, 1187, Ann. Cas. 1918 A, 959; *Morton Salt Co. v. G. S. Suppiger Co.*, supra; *United States v. Masonite Corp.*, 316 U.S. 265, 278, 62 S.Ct. 1070, 1077, 86 L.Ed. 1461. It is the protection of the public in a system of free enterprise which alike nullifies a patent where any part of it is invalid (*Marconi Wireless*

*Co. v. United States*, 320 U.S. 1, 58, 63 S.Ct. 1393, 1419, 87 L.Ed. 1731; and see *General Electric Co. v. Wabash Corp.*, 304 U.S. 364, 372, 58 S.Ct. 899, 903, 82 L.Ed. 1402) and denies to the patentee after issuance the power to use it in such a way as to acquire a monopoly which is not plainly within the terms of the grant. The necessities or convenience of the patentee do not justify any use of the monopoly of the patent to create another monopoly. The fact that the patentee has the power to refuse a license does not enable him to enlarge the monopoly of the patent by the expedient of attaching conditions to its use. United States v. *Masonite Corp.*, supra, 316 U.S. page 277, 62 S.Ct. page 1077, 86 L.Ed. 1461. The method by which the monopoly is sought to be extended is immaterial. *United States v. Univis Lens Co.*, supra, 316 U.S. pages 251, 252, 62 S.Ct. pages 1093, 1094, 86 L.Ed. 1408. The patent is a privilege. But it is a privilege which is conditioned by a public purpose. It results from invention and is limited to the invention which it defines. When the patentee ties something else to his invention, he acts only by virtue of his right as the owner of property to make contracts concerning it and not otherwise. He then is subject to all the limitations upon that right which the general law imposes upon such contracts. The contract is not saved by anything in the patent laws because it relates to the invention. If it were, the mere act of the patentee could make the distinctive claim of the patent attach to something which does not possess the quality of invention. The patent would be diverted from its statutory purpose and become a ready instrument for economic control in domains where the anti-trust acts or other laws not the patent statutes define the public policy."

In *Scott Paper Co. v. Marcalus Mfg. Co.*, 326 U.S. 249, 66 S.Ct. 101, 90 L.Ed. 47 (1945), the U.S. Supreme

Court held that an expired patent cannot be the subject of license agreement. The court stated:

> "It is thus apparent that the patent laws preclude the patentee of an expired patent and all others including petitioner from recapturing any part of the former patent monopoly; for those laws dedicate to all the public the ideas and inventions embodied in an expired patent. They do not contemplate that anyone by contract or any form of private arrangement may withhold from the public the use of an invention for which the public has paid by its grant of a monopoly and which has been appropriated to the use of all. The rights in the invention are then no longer subject to private barter, sale, or waiver. Cf. *Phillips v. Grand Trunk R. Co.*, 236 U.S. 662, 35 S. Ct. 444, 59 L.Ed. 774; *Midstate Horticultural Co. v. Pennsylvania R. Co.*, 320 U.S. 356, 361, 64 S.Ct. 128, 131, 88 L.Ed. 96; *Brooklyn Bank v. O'Neil*, 324 U.S. 697, 704, 65 S.Ct. 895, 900. It follows that the patent laws preclude the petitioner assignee from invoking the doctrine of estoppel, as a means of continuing as against respondent, his assignor, the benefit of an expired monopoly, and they preclude the assignor from estopping himself from enjoying rights which it is the policy of the patent laws to free from all restrictions. For no more than private contract can estoppel be the means of successfully avoiding the requirements of legislation enacted for the protection of a public interest. Compare *Pittsburgh &c. Ry. Co. v. Fink*, 250 U.S. 577, 583, 40 S. Ct. 27, 28, 63 L.Ed. 1151 with *Louisville & Nashville R. R. v. Mottley*, 219 U.S. 467, 476, 477, 31 S.Ct. 265, 268, 55 L.Ed. 297, 34 L.R.A.N.S., 671; *New York Central R.R. v. Gray*, 239 U.S. 583, 586, 587, 36 S.Ct. 176, 177, 60 L.Ed. 451; *Norman v. Baltimore & O. R. Co.*, 294 U.S. 240, 304, 305, 309, 310, 55 S.Ct. 407, 414, 415, 416, 417, 79 L.Ed. 885, 95 A.L.R. 1352, and

> cases cited. The interest in private good faith is not a universal touchstone which can be made the means of sacrificing a public interest secured by an appropriate exercise of the legislative power. The patent laws preclude us from saying that the patent assignment, which they authorize, operates to estop the assignor from asserting that which the patent law prescribe, namely, that the invention of an expired patent is dedicated to the public, of which the assignor is a member."

Thereafter, Congress enacted the Patent Act of 1952, and particularly Section 271 thereof (now 35 U.S.C.A., §271) which provides that a licensing agreement that provides for things other than those subject to the patent does not constitute misuse of the patent. Thus the Congress saw fit to enact legislation which appeared to have the effect of overruling the decision of *Carbice*, *Leitsch*, *Mercoid*, and other decisions above referred to, particularly insofar as the doctrines of misuse and contributory infringement are concerned.

Nevertheless, after the 1952 Legislation, *Lear v. Adkins*, 395 U.S., 653, 89 S.Ct., 1902, 23 L.Ed., 2d 610 (1969) held that the doctrine of licensee estoppel did not prohibit the license from attacking the validity of the patent. In the *Lear v. Adkins* decision, the Court stated:

> "The parties' contract, however, is no more controlling on this issue than is the State's doctrine of estoppel, which is also rooted in contract principles. The decisive question is whether overriding federal policies would be significantly frustrated if licensees could be required to continue to pay royalties during the time they are challenging patent validity in the courts.

"It seems to us that such a requirement would be inconsistent with the aims of federal patent policy. Enforcing this contractual provision would give the licensor an additional economic incentive to devise every conceivable dilatory tactic in an effort to postpone the day of final judicial reckoning. We can perceive no reason to encourage dilatory court tactics in this way. Moreover, the cost of prosecuting slow-moving trial proceedings and defending an inevitable appeal might well deter many licensees from attempting to prove patent invalidity in the courts. The deterrent effect would be particularly severe in the many scientific fields in which invention is proceeding at a rapid rate. In these areas, a patent may well become obsolete long before its 17-year term has expired. If a licensee has reason to believe that he will replace a patented idea with a new one in the near future, he will have little incentive to initiate lengthy court proceedings, unless he is freed from liability at least from the time he refuses to pay the contractual royalties. Lastly, enforcing this contractual provision would undermine the strong federal policy favoring the full and free use of ideas in the public domain. For all these reasons, we hold that Lear must be permitted to avoid the payment of all royalties accruing after Adkins' 1960 patent issued if Lear can prove patent invalidity."

As can readily be seen, the fact that a licensee has been a party to a private agreement which has been made as between a patentee and licensee, etc., has been held not to prohibit an attack upon patent invalidity. Thus, it would appear that although a stipulation as to coverage has been made between parties to litigation through counsel and which has been later attacked as being erroneous as to patent coverage, the stipulation should not prohibit attack upon patent coverage because the patent laws do not favor expansion of the patent *per se*.

The instant case is contra to the spirit of the *Lear v. Adkins* decision, in that it holds that a stipulation between counsel relative to coverage of a patent cannot be attacked as expanding the coverage of the patent and thus being violative of the anti-trust laws. We can ascertain no difference between the stipulation in the instant case and the private agreement in the *Lear v. Adkins* decision. Nevertheless, the decision of the trial court herein as affirmed by the Fifth Circuit Court of Appeals appears to delienate a limitation on the rule of *Lear v. Adkins*. We respectfully submit that such a limitation on that rule is improper.

Although Section 271 of the Patent Act of 1952 appeared to overule the effect of *Carbice*, *Mercoid* and *Scott*, as to misuse and contributory infringement, it would appear that the expressions in those decisions relative to the anti-trust laws and estoppel are still valid. *Lear v. Adkins*, *supra*, lends more support to the theory that the patent should not be expanded by contract, because to do so would violate the anti-trust laws. Here the plaintiff-appellee has thus far successfully expanded its license by stipulation of counsel (erroneous as it was), which, we respectfully submit is no different from the private agreements of *Carbice*, *Mercoid*, *Scott*, or *Lear*. If the theory of limits of the license to the patent itself is still valid, then the stipulation in the instant case should have been reviewed by the trial court and the appellate court to determine whether the tool used by Damco in 1969, did in fact infringe upon the Brown (Potts) patent, which was the subject of the plaintiff's license. If the tool used by Damco in 1969 was either the identical tool or the equivalent of a tool which was the subject of the Brown (Potts) patent, then the stipulation would be

proper. However, if the tool used by Damco in 1969 was different, (and we sought to show this unsuccessfully since immediately prior to the second hearing herein, (the contempt phase), then the stipulation should have been set aside, nothwithstanding the inadvertent stipulation of former counsel for defendants.

There is no doubt but that the Damco tool used in 1969, the subject of the injunction herein, has only one internal conduit; and, during the course of the proceedings before the patent office, the inventor (Potts) insisted that his tool with two internal conduits would be better than and different from the single conduit tool previously patented. Damco did in fact use a single internal conduit tool and its counsel erroneously stipulated that the single conduit tool was covered by the Brown (Potts) patent. The Trial Court refused to re-examine the contentions of Damco in connection with the contention that the single conduit tool was not covered by the Potts patent because of the stipulation—and this is where the error occurred. The stipulation herein is no different from the private agreements of *Mercoid*, *Scott*, *Carbice*, etc. If the Court therein held that the private agreements therein did not preclude the public policy of the patent laws, then we fail to see how the stipulation herein (which is no more than an agreement between counsel) can preclude an examination of both the tools and the patent to determine whether the public policy of the anti-trust laws has been violated.

The public policy of the patent laws has been upheld over the claim of an alleged inventor who contended that the state law of unfair competition prevented the defendant's use of his unpatented invention. See *Sears*

*Roebuck & Co. v. Stiffel Co.*, 376 U.S., 225, 84 S.Ct. 784 (1964), wherein the U.S. Supreme Court stated:

> "Thus the patent system is one in which uniform federal standards are carefully used to promote invention while at the same time preserving free competition. Obviously a State could not, consistently with the Supremacy Clause of the Constitution, extend the life of a patent beyond its expiration date or give a patent on an article which lacked the level of invention required for federal patents. To do either would run counter to the policy of Congress of granting patents only to true inventions, and then only for a limited time. Just as a State cannot encroach upon the federal patent laws directly, it cannot, under some other law, such as that forbidding unfair competition, give protection of a kind that clashes with the objectives of the federal patent laws."

The principles of *Lear v. Adkins, supra, Mercoid, Scott, Sears* and *Compco*, were again confirmed by the United States Supreme Court in the recent decision of *Blonder-Tongue Lab., Inc., v. University of Illinois Found.*, 402 U.S. 313, 91 S.Ct. 1434 (1971) wherein the U.S. Supreme Court dealt with the question of res judicata or validity of a patent in separate suits filed by or against the patentee. In holding that a prior suit involving different parties did not constitute res judicata or estoppel as to the later suit, the United States Supreme Court stated:

> "One obvious manifestation of principle has been the series of decisions in which the Court has condemned attempts to broaden the physical or temporal scope of the patent monopoly. As stated in *Mercoid v. Mid-Continent Investment Co.*, 320 U.S.

661, 666, 64 S.Ct. 268, 271, 88 L.Ed. 376 (1944):

> 'The necessities or convenience of the patentee do not justify any use of the monopoly of the patent to create another monopoly. The fact that the patentee has the power to refuse a license does not enable him to enlarge the monopoly of the patent by the expedient of attaching conditions to its use. *United States v. Masonite Corp.*, (316 U.S. 265), 277, 62 S.Ct. 1070, 86 L.Ed. 1461 (1942). The method by which the monopoly is sought to be extended is immaterial. *United States v. Univis Lens Co.*, (316 U.S. 241) 251-252, 62 S.Ct. 1093, 1094, 86 L.Ed. 1408 (1942). The patent is a privilege. But it is a privilege which is conditioned by a public purpose. It results from invention and is limited to the invention which it defines.'

"A second group of authorities encourage authoritative testing of patent validity. In 1952, the Court indicated that a manufacturer of a device need not await the filing of an infringement action in order to test the validity of a competitor's patent, but may institute his own suit under the Declaratory Judgment Act. *Kerotest Mfg. Co. v. C-O-Two Fire Equipment Co.*, supra, 342 U.S., at 15-186, 72 S.Ct., at 222. Other decisions of this type involved removal of restrictions on those who would challenge the validity of patents.

"Two terms ago in *Lear, Inc., v. Adkins*, we relied on both lines of authority to abrogate the doctrine that in a contract action for unpaid patent royalties the licensee of a patent is estopped from proving 'that his licensor was demanding royalties for the use of an idea which was in reality a part of the public domain.' 395 U.S., at 656, 89 S.Ct.,

> at 1904. The principle that 'federal law requires, that all ideas in general circulation be dedicated to the common good unless they are protected by a valid patent,' 395 U.S., at 668, 89 S.Ct., at 1910, found support in *Sears* and *Compco* and the first line of cases discussed above. The holding that licensee estoppel was no longer tenable was rooted in the second line cases eliminating obstacles to suit by those disposed to challenge the validity of a patent. 395 U.S., at 663- 668, 89 S.Ct., at 1907-1910. Moreover, as indicated earlier, we relied on practical considerations that patent licensees 'may often be the only individuals with enough economic incentive to challenge the patentability of an inventor's discovery.' 395 U.S., at 670, 89 S.Ct., at 1911."
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> * * *
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> "When these judicial developments are considered in the light of our consistent view—last presented in *Lear, Inc. v. Adkins*—that the holder of a patent should not be insulated from the assertion of defenses and thus allowed to exact royalties for the use of an idea that is not in fact patentable or that is beyond the scope of the patent monopoly granted, it is apparent that the uncritical acceptance of the principle of mutuality of estoppel expressed in *Triplett v. Lowell* is today out of place. Thus, we conclude that *Triplett* should be overruled to the extent it forecloses a plea of estoppel by one facing a charge of infringement of a patent that has once been declared invalid."

If the instant decision is permitted to stand, the Honorable Fifth Circuit will not have followed the rationale of *Lear v. Adkins*, and it will be out of step with both the Seventh Circuit and the Ninth Circuit. For example, in *Massillon-Cleveland-Akron S. Co. v. Golden State Adv. Co.*, 444 F.2d 425 (9th Cir., 1971), the Ninth Circuit Court of Appeals held that a covenant in a settle-

ment agreement not to contest the validity of a patent was just as much in direct conflict with the strong federal policy of *Lear* as was the estoppel doctrine and the specific contractual provisions struck down in that decision. To the same effect is *Herbert Rosenthal Jewelry Corp. v. Kalpakian*, 446 F.2d 738 (9th Cir., 1971), which questions whether defendants would be bound by a concession of validity of plaintiff's copyright in a prior consent decree, based upon the *Lear v. Adkins* decision. In *Coastal Dynamics Corp. v. Symbolic Displays, Inc.*, 469 F.2d 79 (9th Cir., 1972), the Ninth Circuit held that there was no distinction between assignor estoppel and the doctrine of licensee estoppel repudiated by *Lear v. Adkins*, Supra.

In *Business Forms Finishing Service, Inc. v. Carson*, 452 F.2d 70 (7th Cir., 1971), the Seventh Circuit Court of Appeals permitted defendants to attack the validity of plaintiff's patent where in a prior litigation defendants recognized the validity of their patent by virtue of a consent judgment. In the later litigation the Seventh Circuit Court of Appeals permitted defendant to attack the validity of plaintiff's patent notwithstanding the Court's statement that:

> "* * * In this litigation defendants are in the unattractive position of seeking to repudiate their solemn undertaking while the ink is barely dry. Understandably, especially since the agreement had been incorporated into a judicial decree, Judge Napoli held that as between the parties the matter of validity had been finally decided. * * *"

The Seventh Circuit then went on to hold that the defendant's agreement to accept the validity of plaintiff's patent was unenforceable, under the decision of *Lear*, *Blonder-Tongue*, *Sears* and *Compco*.

If the defendants in those decisions were not bound by the prior consent decree, then we fail to see how the defendants in this action could be bound by their prior mistaken, erroneous and inadvertent stipulation of counsel. Whether the patent is expanded by stipulation, judicial decree, or private agreement does not appear to make any difference. The critical question which should have been resolved by the Trial Court was whether the Damco tool actually infringed the Brown (Potts) patent since the public policy of the patent laws was at stake. For these reasons, we respectfully submit that the stipulation should have been set aside, or testimony should have been taken with reference to the alleged expansion of the patent. Defendants should have had the opportunity to have a hearing on that question.

## II. IN THE EVENT PLAINTIFF IS ENTITLED TO RECOVER ANY DAMAGES FROM THE DEFENDANTS, THE DAMAGES AWARD SHOULD HAVE BEEN LIMITED TO A REASONABLE ROYALTY

The Trial Court has adopted four theories of approach to the award of damages in the sum of $150,000.00, to arrive at substantially the same conclusion in each case. These theories may briefly be described as follows:

(a) Superior's lost profits.
(b) Decline in value of Superior's business.
(c) Profits of Damco.
(d) Reasonable royalty.

Assuming that damages should be awarded herein, we would respectfully disagree with the approach of the Trial Court in connection with the making of the award for damages.

We believe that the correct theory of a damages award for patent infringement is "damages adequate to compensate for the infringement but in no event less than a reasonable royalty . . . " 35 U.S.C.A., Sec. 284. Under this section, Courts have awarded both lost profits of the plaintiff and profits of the infringer. The U. S. Supreme Court has indicated that the basis of recovery in matters of proven patent infringement is general damages, i.e., any damages which the complainant can prove, not less that a reasonable royalty. See *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 84 S.Ct., 1526, 12 L.Ed. 2d. 457.

The Fifth Circuit Court of Appeals has awarded damages in patent infringement suits covering the loss of the plaintiff based upon profits lost to the patent holder. See *Bros, Inc., v. W. E. Grace Mfg. Co.*, 320 F. 2d 594 (5th Cir., 1964); *Livesay Window Co. v. Livesay Industries, Inc.*, 251 F. 2d 469 (5th Cir., 1958). However, where such losses of the plaintiff have been awarded, it is readily apparent that there is no speculation about whether the plaintiff would have done the business which it claims to have lost, *but for* the infringement. In *Bros,* the Court found "that had not the Infringer sold the machines, the Patentee would." Likewise, in *Livesay Window,* the Court stated:

> "If in all reasonable probability, the Patent Owner would have made the sales which the Infringer had made, what the Patent Owner in reasonable probability would have netted from the sales denied to him is the measure of his loss, and the Infringer is liable for that. Profits, as such, are not recovered as the broadening amendment to the statute, 35 U.S.C.A., S284, makes so clear. The profit is but the true measure of that which infringement has taken from the patent owner for, 'whatever may have been the practice prior to the recent statutory amendments, the

> general damages now recoverable are the detriments suffered by the plaintiffs through the infringement.' Laskowitz v. Marie Designer, Inc., D.C. Cal., 119 F.Supp. 541, 554. Where the wrong done is so absolute, the consequences of an inability to demonstrate the resulting loss with scientific accuracy rests on the Infringer, as on any other wrongdoer, Story Parchment Co. v. Paterson Parchment Paper Co., 282 U.S. 555, 51 S.Ct. 248, 75 L.Ed. 544. This principle certainly applies to patent cases. Horvath v. McCord Radiator Mfg. Co., 6 Cir., 100 F.2d 326; Filtex Corp. v. Amen Atiyeh, 9 Cir., 216 F.2d 443."

Although those decisions have granted substantial damage awards to the plaintiff therein, facts comparable to those presented by the cases cited do not exist here. For example, herein there were numerous other competitors in the pipe-testing field doing substantially the same work performed by both Superior and Damco, plus the fact that in the early part of 1969, an external pipe-tester known as Gator-Hawk External Testers, Inc., entered into the field of competition.

We respectfully submit that the error of the trial court is in the assumption that Miller and the Damco use of the Brown tool were the only factors contributing to the plaintiff's loss of business. We further respectfully submit that the law and the jurisprudence could hardly justify such a result, once there is proof of the existence of competition in the pipe-testing business. There is NO FINDING THAT SUPERIOR WOULD HAVE DONE THE BUSINESS WHICH DAMCO DID.

There are numerous decisions clearly indicating that there is no presumption that the patent holder would have sold its devices or services to those who purchased from the infringer. See *Oil Well Improvement Co. v. Acme Foundry & Machine Co.*, 31 F.2d 898 (8th Cir., 1929); *Hall v. Stern*, 20 Fed. 788

(S.D. N.Y. 1884); *McSherry Mfg. Co. v. Dowagiac Mfg. Co.*, 160 Fed. 948 (6th Cir., 1908); *National Weather Strip Co., v. Bredin*, 182 Fed. 654 (D.C. Pa. 1910);*Debson v. Dornan*, 118 U.S. 10, 6 S.Ct. 946 (1886).

In *Wedge v. Waynesboro Nurseries*, 31 F.Supp. 638, (D.C. W.D. Va. 1940), the Court stated:

> "The plaintiffs submit that damages may be assessed either on the basis of loss shown to have been suffered by them as a result of the infringing competition or upon a royalty basis. The first of these is based upon the theory that where the owner of a patent is able to supply the whole demand for the patented article and he is forced to meet the competition of an infringer, he is damaged to the extent that sales are made by the infringer to persons who otherwise would have purchased from the patentee, and is entitled to recover the profits he (the patentee) would have made on sales lost to the infringing competitor.
>
> "In the instant case, Jackson & Perkins Company was the exclusive licensee of the patents for sixteen states in the eastern part of the United States including all in which the defendants sold any of their plant packages. The plaintiffs contend that every purchaser from defendants was a customer or potential customer of plaintiffs and that they are entitled to recover as damages the profits they would have made on the sales which in fact were made by defendants and which, so plaintiffs contend, would have come to them if there had been no competition. Evidence was introduced tending to show that plaintiff made a profit of approximately 25c on each plant package sold by it of the type similar to the bulk of defendants' sales and plaintiffs claim is on the basis of this profit on each of the 24,384 packages admittedly sold by defendants. *The*

***principles advanced by plaintiffs are no doubt, sound, but the difficulty is a lack of evidence justifying their application here.*** While there is a question of whether the figures submitted by plaintiffs do not exaggerate their accustomed profit, this is a detail which might be adjusted. The lack in the evidence goes further and affects the basic contention that sales made by defendants were sales lost to the plaintiff."

Likewise, in *General Electric Co. v. Sciaky Bros., Inc.*, 415 F.2d 1068 (6th Cir., 1969), the Court stated:

"Sciaky's first claim is that it should have been awarded damages for lost sales not for 50 machines, as found by the Master and District Judge, but for all 92 of the infringing machines which were built in the years in issue. We believe the Master and the District Judge followed the correct legal theory in determining this issue as set forth in Aro Mfg. Co. v. Convertible Top Replacement Co., Inc., 377 U.S. 476, 84 S.Ct. 1526, 12 L.Ed. 457 (1964):

" '(T)he present statutory rule is that only "damages" may be recovered. These have been defined by this Court as "compensation for the pecuniary loss he (the patentee) has suffered from the infringement, without regard to the question whether the defendant has gained or lost by his unlawful acts." Coupe v. Royer, 155 U.S. 565, 582, 15 S.Ct. 199, 39 L.Ed. 263. They have been said to constitute "the difference between his pecuniary condition after the infringement, and what his condition would have been if the infringement had not occurred." Yale Lock Mfg. Co. v. Sargent, 117 U.S. 536, 552, 6 S.Ct. 934, 29 L.Ed. 954. The question to be asked in determining damages is "how

much had the Patent Holder and Licensee suffered by the infringement. And that question is primarily: had the Infringer not infringed, what would Patent Holder-Licensee have made?" Livesay Window Co. v. Livesay Industries, Inc., supra, 251 F.2d (469) at 471 (5th Cir., 1958)." Id. at 507, 84 S.Ct. at 1543.

"It is clear that in this case Sciaky had important competitors other than General Electric in the welding machinery business and that it did not bid on the machines which the Master eliminated from his calculations. We have read and reviewed and approve the findings of fact in relation to the individual machine transactions as set forth in the careful analysis by the Master. Certainly, we cannot hold that the District Judge's affirmance of the Master's report in regard to this issue was clearly erroneous."

The cited decisions, of course, clearly indicated that plaintiff-patent holder (or licensee) bears the burden of showing that it would have done the business done by the defendant-infringer, *but for* the infringement. In the instant case, plaintiff has not carried any such burden. In fact, the defendants have carried any burden of proof upon them by showing the reason for the decline in plaintiff's sales was due to other effective competition in the pipe-testing business, completely aside from defendant Damco's entry into the pipe-testing business.

Gross sales done by Superior in 1968 amounted to the sum of $980,936.38, whereas, their gross sales in 1969, amounted to $431,657.46, or a decline of $507,558.48. By the same token, during the same period, defendant Damco only did a total gross sale of $230,808.64. Even if all of defendant Damco's sales were attributed to the infringement, it is abundantly clear that plaintiff's decline of $276,749.84 could hardly be attributed to

Damco or Miller. If this loss or decline could not be attributed to Damco or Miller, then it must have been attributed to either effective competition from other competitors, who did effectively exist in the pipe-testing field at that time, or to poor management practices on the part of plaintiff and its management. Again we emphasize – there can be no finding that Superior would have done all of the business which it claims to have lost because of decline in its gross sales and proximately caused by Damco. What about other competitors doing increased business in 1969, and entry of the external pipe-testing tool into the area of competition? What about Damco doing in gross business less than half as much as Superior's total decline in business during 1969? What caused Superior's decline in business in the first three months of 1969 before Damco went into business? The answer to these questions is clearly – other competitors in the pipe-testing business.

In *Oil Well Improvement Co. v. Acme Foundry & Machine Co., supra,* the Court states:

> " . . . There is no presumption that appellant would have sold its devices to those who purchased the infringing articles (citing cases). The question is, therefore, whether appellant sustained its burden of proof and showed with sufficient legal certainly that it would have made the sales, or any of them, made by the infringer, had the infringement not been on the market. . . . "

In *Hall v. Stern, supra,* the Court stated:

> "The question is not what speculatively the complainants may have lost, but what they actually did lose. If the defendant had not sold the patented mirrors to their customers, it does not follow that the complainants

would have sold them to the same customers or to retail merchants. Seymour v. McCormick, 16 How. 480. If it had been shown that the ordinary sales of the complainants for the same market fell off during the period of the defendants' sales in an amount equal to, or even approximating reasonably to, the amount of the defendant's sales, the master's findings could be approved. Hostetter v. Vowinkle, 1 Dill. 329. But the proofs do not furnish satisfactory data from which to estimate the extent of the diversion of the complainants' trade in the mirrors . . . "

Again, in *McSherry Mfg. Co. v. Dowagiac Mfg. Co., supra,* the Court stated:

" . . . It is contended that there is no sufficient legal evidence tending to show that appellee would have sold that or any other certain number of its drills to said persons had not appellant company sold them its drills. Of course, if this contention is correct, then appellee is not entitled to any allowance on account of the profits that it would have so made. . . . 'It is necessary to show that he would but for that infringer, have made those sales; and to that end it is necessary to show that he could have supplied the articles wanted, and that the persons wanting those articles would have them had no infringer interfered. In order, then, to uphold the action of the lower court in the particular under consideration, there must be evidence tending to establish two things. One is that appellee could have supplied 3,496 drills of its make in addition to those it did supply; the other that the person who bought from the appellant company that number of drills of its make would have bought from appellee a like number of drills of its make had not they so bought from appellant company. It is not sufficient that

there is evidence to establish either – there must be evidence tending to establish both."

* * *

"... A mere guess or conjecture as to what would have happened will not do. All speculation in regard to the matter must be exluded..."

In *National Metal Weather Strip Co. v. Bredin, supra,* the Court stated:

"For the foregoing reasons, and for the further reason that complainants have not given me any figures in the various territories throughout the United States upon which to base an accounting; I am unable to find that the companies have suffered any damages whatever. Complainants will doubtless contend that even though my conclusion just given be sound, they are, nevertheless entitled at least to damages upon the amount of strip sold by the defendant direct to complainants' licensees, the amount of which I have duly found. But are they? For aught that appears in the testimony, these licensees may have purchased from the defendant because they could not get the strip promptly enough for their purposes from the complainants; or perhaps because on those particular occasions purchases were made owing to the licensees themselves preferring the defendant's strip. It would have been an easy matter for complainants to have called the licensees to whom the shipments were made and had them testify that if they had not purchased from the defendant they would have purchased from the complainants. This they failed to do, and on the fact of the record I am of the opinion that I am not at liberty to guess that those sales resulted in a loss to the complainants."

Likewise, in *National Weather Strip Co. v. Bredin*, 186 Fed. 490 (3rd Cir., 1911), the Court awarded nominal damages for infringement stating:

> "We think the fourth and fifth items should be rejected. Their allowance is based on the assumption that, except for the defendant's competition, the complainants would have done the business represented by those items. The evidence is too uncertain and speculative to be the basis of such awards. Other competitors were in the field, notably the Golden Metal Weather Strip Company, which during the defendant's accounting period sold five times as many feet of metal weather strip as did the defendant, besides others who were dealing in felt and rubber strips. How much of the business acquired by the defendant would have gone to the complainants if the defendant had kept out of the field is a matter of conjecture only. For aught we know, it would have gone to the Golden Company or to some other party or parties."

Likewise, in *Seymour v. McCormick*, 16 How. 480, 57 U.S. 480 (1853), the Court stated:

> " . . . The plaintiff offered no proof tending to show that he could and did supply all the demands for his machine, and could have furnished more if called for. In the absence of this evidence, and in direct conflict with the oath of the plaintiff's own witness, who was his superintendent, the court instructed the jury, that as a matter of law they were to presume that if the defendants had not constructed and sold any machines, the plaintiff would have manufactured and sold machines to the same person to whom the defendants had sold. Hence, the jury were instructed to presume 'in the judgment of the law' what was grossly improbable, and what the plaintiff

himself had actually disproved. The law does not presume that all the persons who purchased of the defendants would have purchased of the plaintiff, because the law does not presume absurdities, and what is substantially a physical impossibility; nor does it presume, without evidence that the plaintiff had introduced a witness who had sworn falsely. This part of the charge is clearly erroneous; the court should have submitted this matter to the jury, to pass on as a question of fact."

All of the cited cases clearly indicate that upon proof of effective competition in the area of business done by the plaintiff and defendant from other competitors, no presumption attaches to any claim of lost business by the plaintiff or the defendant. In fact, for plaintiff to have carried its burden of proof that it would have done the business which Damco did but for the infringement, plaintiff should have produced testimony from various oil company personnel to show that this company or that company would have ordered pipe-testing from Superior, but for Damco being in the pipe-testing business. No testimony was adduced to this effect. Why was no such testimony adduced? We submit the answer is clear – such testimony could not be produced primarily because of the fact that other effective competition in the pipe-testing business in the South Louisiana and off-shore area did exist in 1969 and still does exist as late as this time. Under these circumstances, we submit that the award of damages based upon plaintiff's claim of lost profits and/or the profits of Damco were not proved with reasonable certainty. We further submit that a damages award based upon decline in value of Superior's business is neither proved with reasonable certainty, nor is it supported by the decided case law.

If the plaintiff is entitled to any award for damages based upon patent law, we respectfully submit that the award should

have been based on a reasonable royalty. We know the basis of the royalty charge in the contract herein existing between Brown Oil Tools and Superior, 1½% of gross sales. In the absence of proof as to any other royalty in the pipe-testing area, we submit that if damages were to be awarded, the Court should have awarded damages based upon the reasonable royalty theory of 1½% of gross sales for pipe-testing done by Damco. If the Court should be dissatisfied with the proof as to what a reasonable royalty would be from the proof adduced herein, then the case should be remanded for such additional proof as may be necessary to make such a determination. The Court found that a reasonable royalty would amount to $110,000.00 to $115,000.00 on Damco's gross volume of $226,000.00 during the critical period. A royalty of 50% of the gross is not reasonable – particularly where Damco's *net* profit during the year of 1969 amounted to only about $5,000.00.

Counsel for defendants has prepared a comparison of the gross sales of Superior, showing their decline from the year of 1968 to the year of 1969. On the exhibit which is marked Exhibit "A" annexed hereto following the conclusion hereof, it readily appears that Superior's gross sales declined a total of $507,558.48, during the period from February 1, 1969 through December 31, 1969. By the same token, during the corresponding period, Damco Testers, Inc., did a total of only $230,808.64 in gross sales. Damco only did a total of 45% of the decline in gross sales of Superior. What happened to the remaining 55% difference? Even if we attribute all of Damco's sales to the alleged illegal use of the tool, it is clear that much of Superior's decline is due to other effective competition in the pipe-testing business. This exhibit dramatically shows the effect of other competition upon Superior's volume; therefore, the Trial Court was completely unjustified in ignoring the factor of other competition.

We respectfully submit that because of the other competition which clearly existed in the pipe-testing field, and that because Superior's decline is not attributable only to Damco but to other effective competition as well as to other reasons such as its failure to maintain its equipment, breakdowns on the job, etc., that in the event Superior is entitled to any award at all based upon patent law, it must necessarily be confined to damages based upon the computation of reasonable royalty alone.

## III

There are serious questions herein as to whether the Trial Court lacked federal jurisdiction herein; and, as to whether the Trial Court properly construed the limits of the license.

In the appeal, we originally contended that the question of jurisdiction herein which was raised by the Trial Court ex proprio motu was a serious question which should be considered, for the reason that plaintiff had alleged a cause of action under the patent laws, including patent infringement allegations; however, before reaching any patent problems for decision, the primary question to be decided by the Court related to issues of state law. We do not now abandon the argument as to a lack of federal jurisdiction, or as to the proper method of construcing the license; however, we do believe that the matters presented herein by this application for a writ of certiorari as to the principles of expansion of patent coverage by stipulation and under 35 U.S. Code, Section 284, are federal questions of paramount significance, either of which would warrant this Honorable Court in granting the requested application for a writ of certiorari or review herein.

## REASONS FOR GRANTING THE WRIT

*Carbice* holds that a patent cannot be expanded to include within the license agreement a requirement that a license of unpatented materials not included within a patent be purchased from the licensor. *Mercoid* holds that a license which is broader that the patent so as to include therein unpatented items constitutes misuse and bars a claim for damages for contributory infringement. *Scott* holds that an expired patent cannot be the subject of a license. *Lear v. Adkins,* permits a licensee to attack the validity of the patent under which he is licensed. *Sears-Roebuck & Co. v. Stiffel* prevents an inventor from using the state law of unfair competition to prevent a person from using an unpatented invention. *Blonder-Tongue* permits patent validity to be challenged in more than one suit against the patentee. All of these decisions of the United States Supreme Court appear to sanction an attack upon patent validity or coverage, and to permit an attack upon patent validity notwithstanding a contract or license which appears to recognize patent validity.

Decisions from other circuits hold that a covenant not to contest patent validity is in conflict with the federal policy enunciated by *Lear v. Adkins.* The Seventh Circuit Court of Appeals permitted an attack upon a patent wherein in a prior litigation the same defendant recognized the validity of plaintiff's patent by virtue of a consent judgment.

The Trial Court herein held that the stipulation by defendants' former counsel bound them and precluded an attack upon patent coverage in this litigation. Inasmuch as the Potts patent covers a dual internal conduit tool, and since plaintiff was using only a single internal conduit tool, the Trial Court as affirmed Per Curiam by the Honorable Fifth Circuit Court of Appeals, has permitted an expansion of plaintiff's

license under the patent by stipulation. To award the damages herein awarded and to seek to reserve defendant's rights to attack patent validity at a later date does violence to the principles enunciated by *Lear v. Adkins* and the other decisions hereinabove referred to. Certainly testimony should have been taken concerning the alleged expansion of the patent as soon as this became an issue in the case, simply because of the public policy of the patent laws and jurisprudence.

The Honorable Fifth Circuit now appears to be out of step with the Seventh Circuit, the Ninth Circuit, and the principles enunciated by *Lear v. Adkins* and other decisions which appear to favor the public policy of the patent laws, and the restriction of patent coverage thereunder to the very invention covered by the patent – and no more. If the instant decision is permitted to stand, defendants appear not to be precluded from attacking the patent validity of the Potts patent; however, they are effectively precluded from attacking its coverage, which now appears to be a closed issue because of the mistake of an inadvertent stipulation of former counsel. That is the reason why such a stipulation should not be permitted to be decisive of this litigation, and why the issue of patent coverage should not have been precluded by the unfortunate stipulation. The public policy of the patent laws the public policy of the anti-trust laws and the principles of estoppel warrant this Honorable Court reviewing the matters presented herein. Should this writ be denied, the contractual principles of estoppel will receive their first boost since the *Lear v. Adkins* decision. Where the public policy of the patent laws and the anti-trust laws is at stake, we do not believe that principles of contract estoppel (or stipulation estoppel) should be permitted to prevail.

Another significant reason for the granting of the writ is the manner in which the trial court herein, as affirmed by the Fifth Circuit Per Curiam, awarded damages on the merits

herein. It would serve no useful purpose to reiterate our prior arguments; however, where there is ample competition in the area served by the plaintiff, it appears to be impossible for plaintiff to carry the burden of proof necessary to show that plaintiff would have done the business done by the defendant during the relevant period or that the plaintiff would have done the business which it claims to have lost because of the alleged infringement. The Congress enacted 35 U.S. Code, Section 284 to provide for an award of reasonable royalty under these circumstances, and a reasonable royalty of $150,000.00 where the defendant Damco did a total gross volume of $230,000.00 during the relevant period hardly appears to be reasonable!!! We find it difficult to understand why the magnitude of this error was not detected.

WHEREFORE, petitioners pray that this Honorable Court issue a writ of certiorari directed to the Honorable Judges of the United States Court of Appeals, Fifth Circuit, commanding them to send to this Court the necessary certified copies of the proceedings entitled "Superior Testers, Inc. vs. Damco Testers, Inc., and D. A. Miller", Docket No. 71-2611, on the docket of said court and lately pending therein, to the end that their validity may be ascertained, and that after due proceedings, a writ of certiorari issue herein, that the matter be reviewed, and that the judgments herein granting plaintiff a permanent injunction, a judgment for contempt damages in the sum of $28,159.42, and for damages on the merits of the alleged infringement suit in the sum of $150,000.00, be reversed, and that a hearing be ordered on the coverage of Patent No. 2,953,919 for the purpose of determining patent coverage of the single conduit Damco tool.

Petitioner further prays for all necessary writs and orders and decrees in the premises, and for all general and equitable relief.

## EXHIBIT B

RUBIN, District Judge:

Superior Testers, Inc. (Superior) seeks an injunction on the grounds that Damco Testers, Inc. (Damco) and certain of its officers, directors and stockholders are violating Superior's exclusive patent license by making and using pipe testing equipment in Louisiana and are unfairly competing with Superior. The sole basis asserted for jurisdiction is 28 U.S.C. § 1338[1] and Superior's allegation that the suit arises under the patent laws of the United States.

While the amended complaint asserted a claim for patent infringement, the defendants' answers, and the evidence introduced at the factual hearing on the plaintiff's motion for a preliminary injunction, taken together dispose of any issue in that regard: the crux of their dispute is Superior's claim that it has an exclusive franchise for the states of Louisiana and Mississippi and the offshore areas contiguous to those states and that Damco, the assignee of the patents, is violating that franchise by making the patented equipment in Louisiana and using it offshore from the Louisiana coast. When this became apparent, the court requested memoranda with respect to its jurisdiction.

### I. JURISDICTION

Whether a federal court has jurisdiction of a matter depends on the well pleaded allegations of the complaint. 1 Moore's Federal Practice 0.60 [8.-7]; Wright, Federal Courts § 18 (1963). This rule is known as the "four corners" rule because jurisdiction is determined from the four corners of the complaint without regard to other pleadings or facts later

developed on the merits. "Where jurisdiction is based on the existence of a federal question, the jurisdictional allegation should state that the action arises under a particular statute or provision of the Constitution * * * and the body of the complaint must state facts showing that the case does in fact arise under federal law." Wright, *supra* at § 69, page 254. Unless the plaintiff attempts to invoke federal jurisdiction fraudulently, or in bad faith, or by frivolous allegations, jurisdiction must be determined when the complaint is filed, and by the allegations made in it, for jurisdiction does not of course depend on whether the plaintiff ultimately prevails. Mosher v. LaCoste, 5 Cir. 1945, 147 F.2d 791. Thus said jurisdiction is determined by the way the complaint is drawn, except where the claim of federal jurisdiction is "immaterial and made solely for the purpose of obtaining jurisdiction or where such a claim is wholly insubstantial and frivolous." Bell v. Hood, 1946, 327 U. S. 678, 682-683, 66 S.Ct. 773, 776. Guided by the foregoing principles we begin by examining the portions of the emended complaint[2] that allege jurisdictional facts.

The amended complaint starts by asserting, "This is an action for patent infringement, for specific performance and violation of an exclusive patent license agreement, and for unfair competition." The allegations relating to patent infringement are set forth in Count I. These paragraphs of the amended complaint (numbered 7 through 19) allege that Superior is in the business of pressure testing tubing and casing used in the oil industry. One of the defendants, Brown Oil Tools, Inc. (Brown), was the owner of three patents; Superior purchased certain pipe testing equipment from Brown and entered into a license agreement with Brown on February 1, 1966, and a copy of the Bill of Sale and license agreement is attached; subsequently the license was amended and Superior obtained a license from Brown that was exclusive for the States

of Louisiana and Mississippi, even as against Brown. Between February 1, 1966 and February 28, 1969 Superior paid Brown over $30,000 in royalties for its exclusive rights.

The amended complaint then recites that on February 25, 1969, Damco purchased Brown's rights in the patents "subject to the exclusive license of" Superior; a copy of the assignment from Brown to Damco is attached. Superior reasons that by virtue of these agreements it "has been and is presently the owner of the entire right, title and interest in and to the subject matter of said Patents * * * for the States of Louisiana and Mississippi and is vested with full power to seek an injunction and damages against infringement of said patents within the States of Louisiana and Mississippi." (Paragraph 24).

The amended complaint then alleges that the individual defendants formed Damco to compete with Superior in Louisiana and Mississippi and that Damco has manufactured and used the patented equipment within the State of Louisiana. There follow various allegations concerning the part each of the defendants (other than Brown) is alleged to have played with respect in each case to infringing the patents and Superior's exclusive rights thereunder.

Nowhere in the amended complaint is there a charge merely of patent infringement. The complaint focuses on the charge that the conduct of the defendants was an infringement of the patents and "the exclusive rights of Superior thereunder."

In its amended complaint Superior prays for an injunction against further infringement by all of the defendants, except Brown, of its exclusive rights under the Brown patents within the States of Louisiana and Mississippi. Superior also seeks

treble damages "arising out of infringement" of the patents by the defendants.

In Lang v. Patent Tile Company, Inc., 5 Cir. 1954, 216 F.2d 254, the Fifth Circuit Court of Appeals was asked to construe an instrument denominated an "assignment" of an interest in a patent. The plaintiff's complaint alleged that "a proper interpretation of [the instrument]" was that the plaintiff acquired the "exclusive right to build and construct" the patented machines, "to sell or lease said machines and to license others to use said machines." 216 F.2d 255 n. 1. The complaint further alleged that the defendant's position was that the exclusive right transferred "was no more than a license. There is an actual controversy between the parties concerning the interpretation of the * * * assignment, * * *." *Id.* Part C of the prayer sought an injunction against infringement of the plaintiff's patent rights. The court found that "The primary and controlling purpose of the complaint was to secure an interpretation of the [exclusive franchise]. The prayers for injunction and for damages are conditioned on securing an interpretation of the [franchise] favorable to the plaintiff. Questions under the patent laws may arise in the course of litigation, but this is not a case arising under those laws." [3] 216 F.2d at 255. The Fifth Circuit remanded with directions to dismiss the complaint for lack of subject matter jurisdiction.

The opinion in *Lang* does not discuss two Supreme Court decisions that must also be taken into account here. In Excelsior Wooden Pipe Company v. Pacific Bridge Co., 1901, 185 U.S. 282, 22 S.Ct. 681, a licensee who claimed an exclusive license sued the patentee who was its licensor, together with a third person who had been granted a later license. The licensor's defense was based on alleged revocation of the plaintiff's license. The Supreme Court maintained jurisdiction. It distinguished Wilson v. Sandford, 1850, 10 How. 99, 51 U.S.

99, 13 L.Ed. 344, which was relied on in *Lang*, because *Wilson* involved a suit by the licensor to set aside the license on the ground that the licensee had not complied with the terms of the license. It said the present suit differed from an ordinary infringement "only in the fact that the suit is by a licensee against two defendants, one of whom is the licensor and owner of the patent, and the license is set forth only for the purpose of determining title." The jurisdictional question arose only because the answer admitted the validity of the patent and made revocation of the license the sole issue.

The *Excelsior Wooden Pipe Container* decision cites and relies on Littlefield v. Perry, 1874, 88 U.S. (21 Wall.) 205, 22 L.Ed. 577, where jurisdiction of a suit by a licensee against his licensor was maintained. The court had there observed:

> "[The plaintiffs] certainly had the exclusive right to the use of the patent for certain purposes within their territory. They thus held a right under the patent. The claim is that this right has been infringed. To determine the suit, therefore, it is necessary to inquire whether there has been an infringement, and that involves a construction of the patents. * * * Such a suit may involve construction of a contract as well as the patent, but that will not oust the court of its jurisdiction. If the patent is involved, it carries with it the whole case. A mere licensee cannot sue strangers who infringe. In such cases redress is obtained through or in the name of the patentee or his assignee. Here, however, the patentee is the infringer, and, as he cannot sue himself, the licensee is powerless, so far as the courts of the United States are concerned, unless he can sue in his own name. A court of equity looks to substance rather than form. When it has jurisdiction of parties it grants the appropriate relief without regard to whether they come as plaintiff or defendant. In this case the person

who should have protected the plaintiff against all infringements has become himself the infringer." 88 U.S. (21 Wall.) at 222-223, 22 L.Ed. at 579.

The Seventh Circuit Court of Appeals has interpreted *Excelsior* as controlling a similar question in James C. Wilborn & Sons, Inc. v. Brandex Tilt Sash, Inc., 7 Cir. 1967, 380 F.2d 44. The court said that "the only issue raised" in *Excelsior* "was whether the exclusive license was in existence." 380 F.2d at 47. The court concluded that the significance of *Excelsior* was:

"Thus, if the allegations of a complaint and the relief requested state a claim for patent infringement, the suit is one arising under the patent laws, and the jurisdiction of the district court is not defeated even though the defendant raises no issue other than the plaintiff's contract rights under the patent." *Id.*

Several consistent decisions are cited in *Wilborn*, though *Lang* is not mentioned. See particularly McKnight v. Akins, 6 Cir. 1951, 192 F.2d 674.

The defendant's motion to dismiss relies in part on T.B. Harms Company v. Eliscu, S.D.N.Y. 1964, 226 F.Supp. 337, but that decision was bottomed on the finding that no acts of infringement had been shown to exist. That case, like Muse v. Mellin, S.D.N.Y. 1962, 212 F.Supp. 315 does indeed follow the same rationale as *Lang* and considers the underlying facts to determine jurisdiction. Like *Lang* it does not mention either *Excelsior* or *Littlefield.*

The reasoning of Judge Hubert Will in American Dairy Queen Corp. v. Augustyn, N.D. Ill. 1967, 278 F.Supp. 717, 720, is apposite:

"Since jurisdiction is to be determined solely on the basis of the allegations in the complaint, it could not be defeated by the defendants' assertions in their answer. The result should be no different in this case. Jurisdiction is not defeated simply because the plaintiff has anticipated a defense based on state law and has not only alleged trademark infringement but has sought a determination of the entire controversy." (Citations omitted).

"It is true that the plaintiffs could institute a suit for specific performance of the sub-franchise agreement in the state courts and receive the same relief which they seek here. It does not follow, however, that they must rely solely upon a state court suit on the franchise for any relief. In analogous situations, where a plaintiff has had a choice between relying upon federal law for copyright or patent infringement and state law for breach of contract, it has been held that the plaintiff could base his claim on federal law and invoke federal jurisdiction." (Citations omitted).

The well pleaded allegations of Superior's amended complaint and the relief requested state a claim for patent infringement. Superior alleged that the rights it obtained under its "exclusive license" from Brown amounted to an assignment of all of Brown's rights under the patents in the States of Louisiana and Mississippi, not merely a license to use the invention. While this claim is made with the zeal of advocacy, it is made in good faith.

The name by which an instrument is called is significant as showing the intention of the parties, but it is not controlling; whether a transfer of an interest under a patent amounts to an assignment or a license depends on the effect of the whole

agreement and the legal results flowing from its provisions. E.W. Bliss Co. v. United States, 1920, 53 Ct.Cl. 47, aff'd, 40 S.Ct. 455, 253 U.S. 187, 64 L.Ed. 852; Waterman v. MacKenzie, 1890, 138 U.S. 252, 34 L.Ed. 923. When the agreement contains ambiguities, extrinsic evidence must be considered to construe it properly. American Radiator Co. v. Foster, 6 Cir. 1938, 98 F.2d 135, 136; Container Patents Corp. v. Stant, 7 Cir. 1944, 143 F.2d 170, 172. As an incident of the alleged assignment Superior asserts the right to sue in its own name for an injunction and for damages against infringement in Louisiana and Mississippi, even as against Brown, the licensor-owner, and Damco, Brown's assignee. The claim of infringement was substantial; it was made in good faith and was not frivolous. As in *Wilborn, supra,* "[The plaintiff] put in issue [its] title to the [Brown] patents, the validity of the patents, and the infringement of them. In support of their rights under the patents [it has] alleged facts which, if established, entitle them to enforce the patents against the defendants." 380 F.2d at 47. We find here, as the court did there, that, "The case is therefore one arising under the patent laws, notwithstanding the defendants' assertion that the existence or nonexistence of an exclusive license under the patents is the only contested issue." *Id.* Compare, Luckett v. Delpark, 1926, 270 U.S. 496, 46 S.Ct. 397.

The cases relied upon by the defendants do not sufficiently take into account the principles underlying the four corners rule. The importance of determining jurisdiction by the well pleaded allegations of the complaint is demonstrated here. No question of the court's jurisdiction was raised by the parties. The issue arose only when the court called it to the parties' attention after the trial on the motion for a preliminary injunction. If jurisdiction is now denied because the facts show that the true controversy between the parties is different from

the one framed by the complaint, a new trial in state court would be necessary. Nor could it be predicted when the complaint was filed that no patent issue would be raised. *While Damco might ultimately have been held estopped to deny the validity of the patent, it might have asserted its invalidity as a defense. Or it might have chosen to put the scope of the patent at issue by contending that what it was doing did not constitute an infringement.* Nor is it controlling that the cause of action upon which jurisdiction depends is determined to be without merit. So far as foresight could test, there was jurisdiction when the complaint was filed, and it still exists. We now speak of the ultimate legal disputes between the parties with the certainty of their nature given by hindsight.

## II. FINDINGS OF FACT – PATENT INFRINGEMENT ISSUE

### A. BACKGROUND

Superior is a Louisiana corporation; its President is Lee A. Matherne. Matherne and his wife were two of the three original corporate directors, and they own 12/22 of its outstanding stock. The other stockholder, and the third original director, is Darwin A. Miller, who owns 10/22 of Superior's stock.

Before February 1, 1966, Brown was in the business of pressure testing pipe used to drill oil and gas wells. Miller worked in Brown's Houma, Louisiana, office and was in charge of Brown's pipe testing operations in Louisiana and Mississippi. Brown wanted to sell its patented pipe testing equipment and get out of the pipe testing business. With Matherne's financial support, Miller arranged to purchase the equipment and to get a license for its use.

Superior was therefore organized as a Louisiana corporation in January, 1966. On or about February 1, 1966, Superior and Brown executed an agreement entitled, "Bill of Sale." It conveyed certain pipe testing and related equipment (such as vehicles to transport the equipment), and one incomplete pipe testing unit; it also granted Superior what was termed merely a "non-exclusive license under three Brown patents. The scope of the license was not further defined. Superior was to pay Brown a royalty of "1½% of the amount Superior receives from the testing of pipe which is covered by [the Brown] patents." Brown ceased to engage in pipe testing in Louisiana and Mississippi, and Superior began to engage in that business. In addition to the equipment bought from Brown, Superior bought similar equipment from Miller and began manufacturing pipe testing equipment of the kind covered by the patent. It also completed the partially finished unit it had bought from Brown. Its business soon became highly profitable.

Soon after Superior began business, Matherne asked its attorney to review the Bill of Sale. The lawyer called attention to the fact that the license was nonexclusive. Matherne then requested an exclusive license from Brown. Joe Brown, Brown's president, told Matherne that Brown did not intend to license any other users in Louisiana and Mississippi.

Superior contends that an oral agreement for an exclusive license was made with Brown in 1966, but the evidence is convincing that Brown deliberately refrained from making any such agreement. His company had entered into 65 license agreements between 1965 and 1968, and many before 1965. It had never granted an exclusive license. However, during 1968, Brown decided that, since Matherne was concerned about the extent of his license, he ought morally to give Superior a license

that would protect the company from other users in Louisiana and Mississippi.

In November, 1968, Matherne and Miller disagreed about Miller's management of Superior's operations. Matherne took over active management. Other disagreements arose, and, in December, Matherne sent a message to Miller that, if he did not respond to Matherne within a certain time, his salary would be suspended. Miller did not communicate with Matherne, so Matherne caused Superior to stop his salary.

At a social gathering in Houma, on December 23, 1968, one or more of the guests who had become aware of the differences between Matherne and Miller indicated an interest in joining Miller in any future business. The next day Miller began efforts to organize a new business. By December 27, Damco's articles of incorporation had been prepared, and defendants Miller, Deal, Lafaso and Cournoyer had signed them.

Damco opened an office approximately one mile from Superior's principal office in Houma, Louisiana. It set out immediately to build equipment that was substantially identical to the equipment of Superior, including identical testing tools. It bought supplies from substantially the same suppliers that Superior used, and began to solicit business from Superior's customers.

After learning that Damco had been formed, Matherne became concerned about its competition. Matherne and his attorney contacted Joe Brown by telephone several times in an effort to obtain an "exclusive license." Finally, on January 15, 1969 Matherne went personally to Brown's office in Houston and obtained a letter stating, "You [Superior] have an exclusive license in the states of Louisiana and Misssissippi under the following patents: * * *."

Superior immediately advised Damco, by letter dated January 17, 1969, of its exclusive license under the Brown patents for Louisiana and Mississippi. Thereupon, counsel for Damco wrote to Brown. Brown replied by letter dated January 28, 1969 which advised of the oral agreement granting Superior an "exclusive license" for the States of Louisiana and Mississippi and the confirmation of the oral agreement by the letter dated January 15, 1969.

Damco then sought to circumvent Superior's exclusive license by purchasing the three Brown patents. The Agreement dated February 25, 1969 specifically recites that Brown "transfers to DAMCO that certain non-exclusive license under said Letters Patent granted by BROWN to Superior Testers, Inc. * * * as embodied in a Bill of Sale dated February 1, 1966 * * *; said non-exclusive license having subsequently been made exclusive for the states of Mississippi and Louisiana by a certain letter dated January 15, 1969 * * *."

## B. SCOPE OF SUPERIOR'S LICENSE

The operative language of the Bill of Sale has already been quoted. It says merely that Superior "shall have a non-exclusive license." Similarly, the letter that is relied upon for an exclusive license states that Superior has "an exclusive license in the states of Louisiana and Mississippi" under the Brown patents.

The word "license" is not a self defining, self delimiting term. It implies of course "leave to do a thing which the licensor would otherwise have a right to prevent,"[4] but this does not necessarily mean, as Superior urges, that use of the simple word "license" gave Superior a franchise to exercise every right granted Brown by the patent.

Since the agreement is not clear, we must seek extrinsic evidence to find out what the parties meant by the word they did not further define. The fact that Brown's lawyer prepared the agreement must be taken into account,[5] as well as the rule that a patent license agreement is ordinarily construed against the licensor and in favor of the licensee.[6]

But the conduct of the parties is itself evidence of their own interpretation of the contract. American Radiator Co. v. Foster, 6 Cir. 1938, 98 F.2d 135, 136; Container Patents Corp. v. Stant, 7 Cir. 1944, 143 F.2d 170, 172; De Stubner v. United Carbon Co., S.D. W.Va. 1946, 67 F.Supp. 884, 891-892.

When a prospective purchaser sought to buy pipe testing equipment from Superior, Miller, then its vice-president and general manager, referred the purchaser to Brown. Superior made pipe testing equipment only for its own use. It used the equipment in Louisiana and Mississippi. It made some visits outside these states to solicit pipe testing business, but virtually all of its actual testing was in Louisiana, Mississippi and in the area off Louisiana's coast. It paid royalties to Brown in the same amount whether its receipts were from testing pipe within the geographic boundaries of these states or offshore.

A patent grants the patentee "the right to exclude others from making, using, or selling the invention throughout the United States * * *." 35 U.S.C. § 154. When the patentee grants a license, he remains owner of the patent. Waterman v. Mackenzie, 1890, 138 U.S. 252, 11 S.Ct. 334, 34 L.Ed. 923. The word "license" does not in itself define whether the licensee is to have all of the patentee's rights, and the addition of a restrictive adjective, "exclusive license" does not clarify the word in this regard. The use of the word "license" and the context that surrounds it in the Bill of Sale indicate that the Bill of Sale was not intended to be an assignment of the whole

patent or of title to it, nor was it intended to be a partial assignment of the right to use the invention in the states of Louisiana and Mississippi.

For, as stated in McClaskey v. Harbison-Walker Refractories Co., 3 Cir. 1943, 138 F.2d 493, 499:

> "The assignment of a patent must be in writing to fulfill the requirements of the federal statute. Though no particular form of words is required, the instrument of transfer must be unambiguous and show a clear and unmistakable intent to part with the patent."

*Accord,* Kenyon v. Automatic Instrument Co., 6 Cir. 1947, 160 F.2d 878, 882. *See also,* Switzer v. Commissioner of Internal Revenue, 6 Cir. 1955, 226 F.2d 329, 330; Evans v. Kavanagh, E.D. Mich. 1949, 86 F.Supp. 535; Lamar v. Granger, W.D. Pa. 1951, 99 F.Supp. 17, 36.

The evidence indicates that Superior never obtained and was never given the right, exclusively or otherwise, to *sell* the equipment covered by the subject patents. The word "sell" does not appear in the initial Option Agreement, the Bill of Sale agreement or the letter of January 15, 1969 and the testimony indicates there was never any oral agreement specifically giving Superior any right to sell the patented equipment.

Superior never bargained for or received the express right to *make* equipment, but it apparently considered that it had merely an implied right to make any equipment required for its own use. Had Brown intended to grant Superior the right to make and sell equipment to others, it would likely have reserved some royalty on such sales, or incorporated some provision with respect to payment of royalties to it by the vendees.

The term "exclusive license" employed in the letter of January 15, 1969 was intended by Brown to protect Superior in accordance with Brown's prior oral statement that it did not intend to license others to use the patented equipment in the states of Louisiana and Mississippi. Neither the letter of January 15, 1969 nor any prior oral or written agreement excluded Brown from making or selling the patented equipment in Louisiana and Mississippi.

Superior therefore received an exclusive license to use the invention in Louisiana and Mississippi. Since there was no reservation in the agreement by Brown, the exclusiveness of the license applies to Damco, its assignee, as well insofar as use is concerned. No express term is set forth in the agreement, and the parties offered no evidence on this subject. Since a decision concerning the duration of the agreement is not necessary to the present decision, I pretermit discussion of the question.

## C. GEOGRAPHIC AREA

The evidence taken as a whole convinces me that when Brown and Superior used the geographic terms "Louisiana and Mississippi" in the exclusive license letter, they meant to include the offshore area. Most of Brown's pipe testing work had been done in connection with offshore operations; so had most of Superior's. Royalties had been paid on pipe testing work done for offshore wells. The word "Louisiana" was not used in their agreement in the technical sense of the area already determined by law to be in Louisiana's coastal boundaries, or in the sense of the area [as yet unknown] that may ultimately be found to be a part of the State's territory. See, United States v. State of Louisiana, 1969, 89 S.Ct. 773, and, 1960, 363 U.S. 1, 80 S.Ct. 961. It was used to define the area defined by their prior business dealings as "Louisiana;" this meant offshore as well.

Hence I find that Superior's exclusive license embraces the area off Louisiana and Mississippi shores and that Damco should be enjoined from using the Brown pipe testing equipment there.

## D. ACCRUED ROYALTIES

This being determined, there is no reason why Superior should not pay all accrued royalties as well as future royalties to Damco. There is no proof whatever that Brown violated any duties it owed Superior. Having granted Superior a license, it properly reserved Superior's rights when it assigned the patent to Damco There will be judgment dismissing Brown.

## E. INDIVIDUAL DEFENDANTS

With respect to all of the individual defendants other than Miller, there is no evidence that any of the individual defendants violated any duty they owed Superior. They did not conspire to violate any agreement between Superior and Damco. As investors they purchased corporate stock. The corporation had a reasonable amount of capital stock, and was not a mere sham. It had a bona fide dispute about contractual interpretation with Superior, and the court has determined that Superior's version of the agreement is substantially correct. The corporation, Damco, does owe damages for its actions but there is no reason to set aside the corporate entity and mulct the stockholders and directors.

There remain for final determination the charges by Superior that Miller violated his fiduciary obligations to the corporation and Miller's attempted counterclaim as a stockholder derivative action against Matherne. These questions are closely related. They must all be determined by Louisiana law. They involve only Louisiana residents and Louisiana

corporations. A Louisiana court is the appropriate forum for their determination.[7]

Nonetheless in order that matters may remain in status quo pending a determination of these questions, the injunction will also provide that Matherne's total compensation from Superior is to be reduced to $12,000 a year; he is to be reimbursed actual expenses incurred in the business only, and only those properly deductible for federal income tax purposes; all corporate expenditures are to be by check; and all checks are to be countersigned by Frank J. Lofaso, as nominee of Matherne; should any disputes concerning business matters arise the court will appoint an arbiter and Matherne is to pay no salaries or compensation to any member of his family except a salary to his brother Carroll Matherne in the amount of $925.00 per month. This portion of the injunction will be vacated as soon as a Louisiana court assumes jurisdiction of the matter either by issuing an injunction or denying one.[8]

A judgment of dismissal will be entered as to all parties except Damco, and a hearing on the claim for damages against Damco is set for February 2, 1970, at 9:00 A.M. On January 14, 1970, at 10:00 A.M. the court will consider whether a Special Master should be appointed to make that determination.

This opinion will serve in lieu of findings of fact and conclusions of the law.

UNITED STATES DISTRICT JUDGE

New Orleans, Louisiana
January 15, 1970

1. "(a) The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, copyrights and trademarks. Such jurisdiction shall be exclusive of the courts of the states in patent and copyright cases.

"(b) The district courts shall have original jurisdiction of any civil action asserting a claim of unfair competition when joined with a substantial and related claim under the copyright, patent or trademark laws. June 25, 1948, c. 646, 62 Stat. 931." 28 U.S.C. § 1338.

2. Since the amended acomplaint is complete in itself and makes no reference to nor adopts any portion of original complaint it supersedes the original complaint. 3 Moore's Federal Practice ¶15.08[7] and cases in n. 1 at 939.

3. Compare the decision in Industrial Synthetics Corp. v. Swan Rubber Co., 5 Cir. 1956, which is consistent with *Lang*.

4. Western Electric Co. v. Pacent Reproducer Corporation, 2 Cir. 1930, 42 F.2d 116, 118.

5. Krantz v. Van Dette, N.D. Ohio 1958, 165 F.Supp. 776, 779; Lewis Invisible Stitch Mach. Co. v. Popper, E.D. N.Y. 1940, 33 F.Supp. 812, 813.

6. Ruckstell Sales & Mfg. Co. v. Perfecto Gear Differential Co., S.C. Cal. 1928, 28 F.2d 407, 411.

7. Since Superior acquired merely a license rather than an assignment or partial assignment of rights under the patents, it is possible that this court does not have jurisdiction of these issues under 28 U.S.C. § 1338(b). In addition it would clearly be unjust to decide Superior's claims of unfair competition against Damco and Miller, without considering Miller's derivative action against Superior – an action that is not within this court's jurisdiction.

8. An order granting this injunction was entered by the court on December 18, 1969, for written reasons to be later assigned.

## EXHIBIT C

RUBIN, District Judge:

Superior Testers have moved for reconsideration of the court's order dated December 18, 1969, and the judgment thereafter entered on January 2, 1970, and seeks to have the court set aside that part of these decrees dismissing D. A. Miller the president of the infringing corporation. The basis alleged is that, on the facts adduced at the hearing, Miller is (or may be) personally liable to Superior Testers for the infringement of Superior's exclusive patent license rights under the provisions of 35 U.S.C. §271 (b).

Section 271 (b) of the patent law, which codifies the law on contributory infringement,[1] provides:

> Whoever actively induces infringement of a patent shall be liable as an infringer.

It is doubtless thru that "being an officer of a corporation does not of itself make the officer personally liable for [the corporation's] infringements." General Motors Corp. v. Provus, 7 Cir. 1938, 100 F.2d 562. When, however, the corporate officer has played the primary role in organizing and managing the corporation and has directed the manufacture and sale of the infringing devices, courts in several circuits have, with near unanimity, found him jointly liable. International Mfg. Co. v. Landon, Inc., 9 Cir. 1964, 336 F.2d 723 cert. den. 379 U.S. 977; Marks v. Polaroid Corp., 1 Cir. 1956, 237 F.2d 428 cert. den. 352 U.S. 1005; Dean Rubber Mfg. Co. v. Killian, 8 Cir. 1939, 106 F.2d 316 cert. den. 308 U.S. 624. See also Weller Mfg. Co. v. Wen Products, Inc., 7 Cir. 1956, 231 F.2d 795; Claude Neon Lights, Inc. v. American Neon Light Corp., 2 Cir. 1930, 39 F.2d 548; Southwestern Tool Co. v. Hughes Tool Co.,

10 Cir. 1938, 98 F.2d 42. Not all of these decisions are "goose cases." As Damco's counsel correctly points out, *International Mfg. Co.* and *Weller Mfg. Co.* involved sole stockholders whose corporations served as instruments of the infringement and *Marks* involved a family corporation. But these distinctions are merely freckles on the nose of the principle. While the Fifth Circuit has not yet passed on the liability of corporated officers under 271 (b), it has defined the section to cover "the ranges of actions by which one in fact causes, or urges, or encourages, or aids another to infringe a patent." Fromberg, Inc. v. Thornhill, 5 Cir. 1963, 315 F.2d 407, 411.

This definition states a general rule that appears to reach Miller's conduct here. The evidence convinces me that Miller was the guiding force in the organization of Damco, had been its chief executive and largest stockholder and had a major part in designing and, on behalf of Damco, in using the infringing equipment. While it is true that he did so only as president of, and on behalf of, Damco and benefitted only in his capacity as stockholder, Miller was the moving, active, conscious force behind the infringement. Hence the motion to reconsider is granted and the prior decrees are set aside but only insofar as they dismiss D. A. Miller.

UNITED STATES DISTRICT JUDGE

New Orleans, Louisiana
August 20, 1970

1. Note, Section 271(b) of the Patent Act of 1952; Confusion Codified, 66 Yale 132, 136, 139 (1965); Walker, Patents (Deller ed. 1967-68 Supp.) pp 1764.

## EXHIBIT D

Rubin, District Judge:

"An injured friend is the bitterest of foes,"[1] The bitter foes in the patent infringement action, Lee Matherne and Darwin A. Miller, were two of the three original directors of Superior Testers, Inc. Superior's third director was Matherne's wife. Superior had obtained an exclusive license to use certain pipe-testing equipment from Brown Oil Tools, Inc., which held patents on the equipment. After a disagreement between Matherne and Miller over Miller's management of Superior, Matherne took over active management of Superior and Miller organized a new competing business, Damco Testers, Inc. Damco, by an agreement dated February 25, 1969, purchased the Brown patents. Superior brought this action when Damco allegedly began making and using equipment infringing Superior's exclusive license.

In its original petition, Superior asked that Damco be enjoined "from making, using or selling" the equipment covered by the Brown patent, On December 18, 1969, this Court issued an order restraining "Damco Testers, Inc. (Damco) and all agents or employees and all persons in active concert and participation with Damco . . . from using the patented equipment that is the subject matter of this suit in Louisiana and offshore from the Louisiana coast."

On February 18, 1971, after a hearing, this Court issued an order finding Damco "in willful and deliberate contempt and violation" of the December 18, 1969, restraining order "by the continued use since that date of the patented equipment that is the subject of this suit within plaintiff's exclusive territory," and also finding Miller in contempt resulting from "the acts of persons for whose conduct the Court considers him to be

responsible," though not with his "personal and actual knowledge." That order also granted Superior reasonable attorneys' fees and costs in connection with the preparation and prosecution of its motion for contempt.

This opinion will set out the findings of fact upon which that finding of contempt was based, and will determine the sums to which Superior is entitled as attorneys' fees and costs.

## FINDINGS OF FACT ON SUPERIORS'S MOTION FOR CONTEMPT

In Internally testing pipe in oil well operations, a "top tool" and a "bottom tool" are used to seal off a segment of pipe, and that segment is subjected to controlled hydraulic pressure. The licensing agreement, and the patent on which it is based, contemplate the use of both the Brown "top" and "bottom" tools in conjunction with each other. If Damco used only a Brown "top tool," this would not violate the restraining order for it would not violate the license.

But a Brown top tool is readily convertable to a bottom tool, and it was acknowledged by Damco that a converted Brown top tool would be no more than a colorable variation of the Brown bottom tool; if Damco used a converted Brown top tool as a bottom tool in its testing operations, Damco would be in violation of the Court's injunction. The one obvious difference between the Brown top tool converted to use as a bottom tool and a different bottom tool designed by Damco is that the Damco bottom tool is set externally by "swab cups." Additionally, the Damco tool could not be used to test the Otis nipples of 5.95 weight 2 3/8" pipe because such nipples have an inner diameter or "drift" of less than 1.770," the smallest outer diameter of any Damco bottom tool produced at the hearing. The Brown tool could, if converted to a bottom tool, pass

through and test Otis nipples for 5.95 weight 2 3/8" pipe, however, because Damco had Brown tools with an outer diameter as small as 1.5".

The evidence heard at the contempt hearing established at least three and perhaps five occasions after the issuance of the injunction when the Brown tool was used in violation of the Court's prohibition.

*Rowan Rig 13 – December 24, 1969*

A former Damco employee, Bill Strickland, testified at the hearing that he had, while working on Rowan 13 on December 24, 1969, converted a Brown top tool to a bottom tool. This testimony was in direct contradiction of his testimony on deposition, but the in-court testimony was corroborated by at least four of Superior's witnesses. Liley Porche, Jr., a Superior casing crews employee who happened to be working on loan as a tong operator on Rowan 13 on December 24, and Minos J. Landry, a Rowan driller, both testified and I believe truthfully, that testing operations on that day were begun with a bottom tool with swab cups, but that, when the operation became difficult, the crewmen switched to a bottom tool without swab cups. Fred LaRose, another believeable witness, also testified that, when he arrived on Rowan 13 pursuant to his instructions from Lee Matherne, his employer, he found the Brown tool in use. Porche and Landry also testified that when Matherne arrived at the rig after being informed by LaRose that the Brown tool was being used, the tool without swab cups was removed before Matherne arrived on the drilling floor, so that they would not get "caught," according to Porche, and the rig was shut down for more than an hour while Matherne was on board. Leo Dupree, a Rowan tool pusher, testified that the operators said they could not test with Matherne around. When operations were resumed with a bottom tool with swab cups,

the difficulties encountered were such that the rig was shut down early for Christmas holidays.

*Lyons No. 1 – July 15, 1970 (Damco Invoice 434) and Texaco 8184 – November 2, 1970 (Damco Invoice 608)*

Damco's invoices established that on both of these jobs 5.95 weight 2 3/8" pipe was tested. In addition, on the Texaco job, some 7.7 weight 2 3/8" pipe with an inner diameter of 1.609" was tested. Wilbur Kobodeaux, a Damco operator whose name appeared on both job tickets and who was summoned to Court directly from his work on an oil rig in the Gulf of Mexico to insure that his testimony would not be prepared in advance, testified, again contrary to his prior deposition, that on both jobs a converted Brown top tool was used as a bottom tool. Kibodeaux stated that the only alternatives were to use the converted Brown tool or to shut down the operation.

*Rowan Rig 11 – September, 1970*

Leo Dupree and Herbert Quick, who were working on the rig for Damco, both testified that testing operations were accomplished with a bottom tool without swab cups. Quick testified that the bottom tool was a Brown top tool which Bobby Danford, the Damco operator, converted.

*SCI Rig – January, 1970*

Lee Matherne and Fred LaRose testified that Damco was testing with Brown tools.

Douglas Floyd, who was a Damco employee on Rowan 13, and Bobby Danford, Damco's operator on Rowan 11, were called by Damco, and both testified that they never used any

bottom tool other than Damco's. I am unable, however, to give credit to the testimony of either of these witnesses. These were the only Damco employees to testify concerning the occasions when I find that the Brown tool was used.

In his testimony, Wilbur Kibodeaux stated that whenever it became necessary in the course of operations, Damco operators could request a Brown top tool from the Damco office, and convert it at the site with a piece of equipment carried in the operator's tool box.

The above facts convinced me that several Damco employees were making and using Brown bottom tools in the course of their testing operations, and therefore I found that Damco was in willful and deliberate contempt of the Court's December 18, 1969, restraining order.

With respect to Darwin A. Miller, the proof adduced at the hearing did not satisfy me that he was actually aware of the use by him employees of the converted Brown top tool. Miller, however, is president, pricipal stockholder, chief executive, and guiding force in the organization and management of Damco. Like any other corporation, Damco has no existence apart from its employees. The knowledge of Damco employees acting in violation of this court's orders is imputed to Miller. Furthermore, even if Miller was not actually aware of the use of the Brown tool by his employees, he should have been. It was not enough that he ordered his employees on December 19 or 20, 1969, not to use the Brown bottom tool. It was incumbent on him as Damco's manager to take steps to insure compliance with his orders and those of this court.

The evidence was clear and convincing that Damco had acted in willful and deliberate contempt, and D. A. Miller, in constructive contempt, of this Court's order. The order finding

contempt direct certain procedures designed to avoid any future actions in contempt of this Court's authority.

## ATTORNEYS' FEES AND COSTS

In a civil contempt proceeding, the court has discretion to award reasonable attorneys' fees and other expenses "necessary to make an innocent party whole." Dow Chemical Co. v. Chemical Cleaning, Inc., 5 Cir. 1970, 434 F.2d 1212, 1215, and cases cited therein.

Superior has filed an itemized statement of attorneys' fees and costs incurred with regard to the contempt motion. Based on those data, I have determined that a reasonable award should include reimbursement for the sums paid for the services of the law firms of O'Brien & Jacobson and Milling, Saal, Benson, Woodward & Hillyer. The fee and costs incurred for the services of the firm of Pipes & Pipes is not included because that firm is paid a monthly retainer, and the plaintiff seems to have incurred no additional expense because of the contempt motion. It is suggested that Pipes and Pipes are normally retained by Superior Casing Crews, not Superior Testers, but the evidence indicates that Mr. Matherne is the dominant shareholder in both firms, and it does not sufficiently indicate their independence for me to distinguish them.

Similarly, the claim for reimbursement of a percentage of the salary of Lee Matherne is rejected because that expense was a continuing expense of the company, and did not represent any additional cost resulting from the violation of the court's orders.

Mr. Harvey B. Jacobson, Jr., of O'Brien & Jacobson, bills for his services at the rate of $40.00 per hour and $300.00 per day. This rate is reasonable and in accordance with the scale of

charges customary in New Orleans. He is an experienced and able lawyer, and the quality of his work was excellent. Mr. Jacobson devoted a total of 22½ full days plus 110¼ hours, accumulated at other times, to his efforts on behalf of Superior relating to the contempt motion. A reasonable fee for his service, excluding costs, is therefore $11,160.

In connection with the contempt proceedings, Mr. Jacobson incurred travel expenses of $2764.37; telephone tolls of $528.26; and copying costs of $92.28. These costs, which I believe it reasonable to include in the award, total $3384.91.

The total fee and costs awarded to Superior for the services or O'Brien and Jacobson, therefore, are $14,544.91.

The Milling firm billed Superior for 282 hours of work on the contempt motion, at an hourly rate of $35.00, for a total fee, less costs, of $8470. These charges were reasonable, in the light of prevailing and customary fees in this area. Total contempt- related costs were $209.23.

The total fee and costs awarded to Superior for the services of the Milling firm, therefore, are $8679.23.

Superior has submitted documentation in support of the following costs incurred in connection with the contempt proceedings:

| | |
|---|---|
| Court Reporters' Fees | $1810.30 |
| Subpoenas and Witness Fees | 297.40 |
| Exhibits | 19.14 |
| Travel Expenses | 1957.32 |
| Meals & Lodging | 243.97 |
| Telephone Tolls | 158.44 |

| | |
|---|---|
| Clerical Services | 242.41 |
| Investigative Services | 206.30 |
| TOTAL COSTS | $4935.28 |

Based on the above facts, I determine that a reasonable award to Superior Testers for attorneys' fees and costs incurred in connection with these contempt proceedings is $28,159.42. The Clerk is directed to enter a judgment in favor of Superior Testers, Incorporated, and against Damco Testers, Incorporated, and D. A. Miller, jointly and solidarily, for that amount.

UNITED STATES DISTRICT JUDGE

New Orleans, Louisiana
June 28, 1971

1. Thomas Jefferson, French Treaties Opinion, 1793.

## EXHIBIT E

RUBIN, District Judge:

Just as it appeared that the trial court stage of this proceeding was about to end, and the Clerk and court reporter had begun their chores in connection with the inevitable appeal, a spate of motions was filed, some presenting new issues, most reurging issues previously decided. This opinion, in lieu of findings of fact and conclusions of law, will discuss my determination of the issue of damages and my disposition of the latter day problems.

### I. IS THE MEASURE OF DAMAGES GOVERNED BY FEDERAL OR STATE LAW?

At the start of the hearing on damages, the court orally inquired into the basis for determination of damages and remarked that the case seemed to be one merely of breach of contract. The complaint in this case charged that the conduct of the defendants was an infringement of the Brown patents and "the exclusive rights of Superior thereunder." It sought an injunction against "further infringement" and treble damages "arising out of infringement." In determining jurisdiction, the court's opinion dated January 15, 1970 discussed the nature of this suit. As mentioned there, a suit for violation of an exclusive license may be, in effect, an infringement suit. See Littlefield v. Perry, 1874, 88 U.S. (21 Wall) 205, 22 L.Ed. 577; James C. Wilborn & Sons, Inc. v. Brandex Tilt Sash, 7 Cir. 1967, 380 F.2d 44. At least one court has awarded damages for a license violation on the same basis as if the claim were for infringement. E.I.S. Mfg. Co., Inc. v. Supco Products Corp., S.D.N.Y. 1938, 26 F.Supp. 758, 760. But see Lang v. Patent Tile, 5 Cir. 1954, 216 F.2d 254 (where assignee of patent rights unsuccessfully sought declaratory interpretation of the

assignment) and Chicago Fittings v. Hone, S.D.N.Y. 1964, 226 F.Supp. 337; Muse v. Mellin, S.D.N.Y. 1962, 212 F.Supp. 315.

The question is one about which there is much doubt and little authority. Principle may lead us either way: if the exclusive franchise is viewed merely as a contract governed by state law and its violation merely a breach of contract, then damages would be controlled by state law. But if the franchise is viewed as a grant to use a patent, its breach should be considered an infringement of the patent itself; and it should then be considered immaterial that the patentee was the infringer. The available paths diverge like Robert Frost's roads in a yellow wood, each with something to commend it and each with warnings against completely safe travel.

Though it may turn out to be the road less travelled by, the better path appears to view the franchise as a conveyance of the patent and its violation a patent infringement. All the issues appear to have jurisdiction, by the application of patent infringement rules, rather than by application of the differing contract breach doctrines of the various states.

## II. WHAT IS THE QUANTUM OF DAMAGES?

The court orally announced its conclusions with respect to the amount of damages after considering briefs and hearing oral argument on July 9, 1971. It is unnecessary to set forth a revision of these remarks at length. They are here re-confirmed as *fully* expressing precisely the findings of the court. They are, of course, discursive. But they are an accurate statement of the court's findings.

In summary, Mr. Miller has previously been guilty of contempt of the injunction issued by the court, and his

testimony is not reliable. But, despite this, or perhaps because of it, Mr. Miller has been as efficient manager. He has made himself well liked, both by his customers and his employees, and his personality has enabled him to attract patronage.

The damages suffered by Superior Testers have stemmed as much from Mr. Miller's effective competition as from his violation of the exclusive license. Therefore the most accurate way to measure damages is to compute the total damages suffered by Superior Testers from the time Mr. Miller organized Damco until December 18, 1969, and allow Superior Testers to recover half of this sum.

The evidence supports this in many ways. Except for the early part of the period, Damco did *not* use only the Brown tool. After Damco developed the so-called Damco tool, it performed much of its testing with this tool. Even after Damco ceased to use the Brown tool completely, it remained in business and earned profits.

This leaves the question of how to determine the proper quantum of damages. It was necessary to adopt a single one of the alternates proposed because they all led to approximately the same conclusions:

(A) *Superior Tester's lost profits.* If damages were computed on this basis, I would conclude that half of Superior Tester's losses derived from violation of the franchise and one-half from the mere fact of competition by Damco, legitimate in every way so far as this suit is concerned;

(B) *The difference in the value of Superior's business before the violation of the exclusive franchise and its value at the end of the period in question.* Again I

conclude that one-half of this decline is due to Damco's violation of its legal duty to Superior Testers and one-half is due merely to the fact of competition by an able and aggressive competitor.

(C) *Profits derived by Damco.* I conclude that Damco owes 50% of its success to use of the tool it should not have used, but 50% to Mr. Miller's personality and business ability.

(D) *Reasonable gross monthly payment for the use of the device.* This is an entirely different approach, but, in dollars, it yields approximately the same results.

Turning to the quantum of damages computed by each of these methods:

(A) Prior to the formation of Damco, Superior Testers average annual gross sales amounted to $95,000; its average annual net income before taxes was $83,000; and its average net income annually after taxes was $48,500. The fair market value of its business, based on a multiple of about seven times after tax earnings, was $350,000. One half of this sum is $175,000. If the multiple is six times after tax earnings, the sum is $300,000, and one-half of it is $150,000.

(B) Superior Testers suffered lost profits after taxes of approximately $300,000 during the period in question.

(C) Damco realized profits of $226,000 during the period in question.

(D) A reasonable royalty on the gross proceeds of the

testing business would yield approximately $110,000 to $115,000.

Considering all of these, I assessed damages in the sum of $150,000.

## III. WITHDRAWAL OF DAMCO STIPULATION

A summary of the facts will assist in understanding this issue. Brown granted Superior Testers an exclusive license to use a patented testing tool known as the Brown tool in Louisiana and Mississippi at a time when Miller was Superior Tester's manager. Superior Testers began using a tool that was identical to the tool Brown had actually been using and was therefore assumed by Miller and Matherne, the principal stockholders of Superior Testers, to be an embodiment of the Brown patent.

When Miller formed Damco, Damco began making the same tool Superior Testers had used. Damco later acquired the Brown patent rights, and began using the tool. In this suit, Superior Testers asserted that Damco's use of the tool violated its license. Damco denied that the exclusive license extended to Damco's use of the Brown tool off Louisiana's shore.

It was thus apparent that Damco might raise the issues whether the patent was valid and whether the tool actually in use embodied the patent. Damco was represented both by able Louisiana counsel and by specially qualified patent counsel.

When Miller's deposition was taken on May 5, 1969, Superior Tester's patent counsel began to inquire into these matters. Damco's patent counsel stated: "Can we shorten this somewhat, Harvey? We are willing to stipulate that the tools that Mr. Miller makes and which Damco Testers make (sic) are covered by the patents." (Deposition p. 24). After further

discussion the stipulation was elaborated in the record of the deposition.

The answer filed by Damco and its stockholders specifically admitted "that equipment manufactured by Defendant Damco is covered by the subject patents." (¶ 14)

Later, a pre-trial conference was held. Paragraph 11 of the pre-trial order, which was signed by counsel for both parties, states, "The testing tools identified as Miller Dep. Exhibits 7 and 8 are exemplary of the testing tools covered by the Damco patents and were made by Damco in Houma, Louisiana and were used by Damco in Louisiana and elsewhere."

This stipulation, in substance, was again made at the first evidentiary hearing on the merits. To assert now, as Damco does, that the record "contains no evidence or finding on the question of whether the Brown tool was covered by the Brown patent" is merely disputatious.

The first hearing was held on the issue of liability only. The question of damages was reserved for a later hearing.

After the court had decided in favor of Superior Testers on the liability issue, and shortly before the hearing to fix damages, Damco moved to set aside its stipulation. It sought, and still seeks, to litigate both the questions of whether the tools actually used by Brown and Damco embody the patent and, if they do, whether the patent is valid. The motion recited that defendant's lead counsel, who had special experience in patent matters, had entered the stipulation in error because he was not aware of the manner in which the interior of the tool was constructed.

There was evidence at the trial of the contempt hearing, the second evidentiary hearing in this matter, that lead counsel had in fact been present on an occasion when the Damco tool was disassembled and knew its exact manner of construction.

Pretermitting this, however, the motion is untimely. The issue is not governed by FRCP Rule 60(b), for that deals only with final judgments. However, it is clear that, "Stipulations entered into freely and fairly should not be set aside except to avoid manifest injustice." Henry v. Commissioner, 5 Cir. 1966, 362 F.2d 640, 643. . Here, as in *Henry*, "No evidence of 'manifest injustice' is present. [Damco] had ample time to raise the issue . . . before trial. None of the evidence was newly discovered." Id. at 643.

"[T]he court's duty is equally clear to give full force and effect to the commitments of counsel duly and voluntarily made as to the truth of simple facts." Associated Beverages Co. v. P. Ballantine & Sons, 5 Cir. 1961, 287 F.2d 261, at 263. See also Brinson v. Tomlinson, 5 Cir. 1959, 264 F.2d 30; Laird v. Air Carrier Engine Service Inc., 5 Cir. 1959, 263 F.2d 948.

To reopen this case to permit litigation of the validity of the patent at this time, when there have already been three evidentiary hearings, and the case is over 2 years old, would be to enter upon a whole new law suit. The evidence indicates that each party has already expended over $70,000 in litigation expenses and attorney's fees. The court has preserved Damco's right to litigate the issue of patent validity in a separate proceeding, and a suit has been instituted for this purpose. Docket No. 71-1799. In that suit the validity of the patent and its future enforceability can be determined in an orderly manner. It would be unjust to Superior to reopen this almost completed and already distressingly expensive and protracted matter to inject into it all the issues involved whenever patent validity is contested and to delay its determination for the time required for such litigation.

Almost two years ago, in denying a motion to amend the pleadings in this case to assert issues of Louisiana law, the court indicated to counsel that there were many disputed issues

between them that could only be properly resolved in a state forum, and urged the institution of appropriate proceedings to resolve all of their differences. Damco delayed for over a year in doing this. There was also a delay in filing the patent infringement suit after the court reserved to Damco the right to do so. These factors contribute to the conclusion that this suit should not be further protracted at Damco's instance.

## IV. JURISDICTION RECONTESTED

Although insisting that the question of patent validity *is* at issue between the parties, Damco suggests again that, if the court does not now reopen this dispute, it lacks jurisdiction. The question of jurisdiction was raised by the court sua sponte in this case more than seven months after the complaint had been filed, and after the court had held hearings and conferences. After extensive briefing, an opinion was rendered on January 15, 1970, concluding that the court had jurisdiction. Now it is suggested that the decision of the Third Circuit Court of Appeal in Thiokol Chemical Corp. v. Burlington Industries, Inc., 1971, 40 L.W. 1041, 40 L.W. 2163, requires reconsideration of the jurisdictional question. But that decision warrants no such conclusion. For *Thiokol* held merely that an action for a *declaratory judgment* to avert a possible suit by the defendant to collect royalties under a non-exclusive license for manufacturers alleged not to be covered by the agreement was not within federal jurisdiction, for the threatened action itself would merely have been a suit for breach of contract, a purely state action. The court held there was jurisdiction of a companion case between the same parties seeking a declaratory judgment with reference to the invalidity of the patents themselves arising after termination of the licensing agreement. Unlike *Thiokol,* the court here did not have to speculate whether the complaint was in reality a defense in anticipation of an affirmative suit by the defendant for

royalties. Here, the plaintiff's complaint affirmatively stated both an action for patent infringement, as an exclusive licensee, and for breach of contract.

Even if it is assumed that the contract action herein would not in itself be within the jurisdiction of the court, jurisdiction over those claims was gained by virtue of their being pendant to patent infringement allegations of the complaint. Were the state claim to be dismissed on jurisdictional grounds, a new trial might have to be held on evidence that is already four years old. It is in the interest of judicial economy to decide simultaneously all questions arising from the same set of operative facts. Furthermore, it should be noted that the issue of jurisdiction was raised by the court sua sponte more than seven months after the action had been instituted, and also after two hearings had been held. "Any other result in this case would be unfair and inconvenient to the litigants and would impose an unnecessary burden on the state legal system." Sauls v. Hutto, E.D. La. 1969, 304 F.Supp. 124, 128.

For these reasons judgment will be rendered in favor of Superior Testers and against Damco in the sum of $150,000 plus costs, together with interest as allowed by law.

Counsel for Superior Testers will prepare an appropriate form of judgment, and submit it to Damco's counsel for review as to form.

UNITED STATES DISTRICT JUDGE

New Orleans, Louisiana
November 10, 1971

## EXHIBIT F

(November 24, 1972)

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Before GEWIN, BELL and GODBOLD,
Circuit Judges.

2 SUPERIOR TESTERS, INC. v. DAMCO TESTERS

PER CURIAM: The judgment of the district court if affirmed on the appeal and cross appeal. All costs shall be taxed against appellants-cross appellees, Damco Testers, Inc.

AFFIRMED.

## EXHIBIT G

(February 8, 1973)

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**2 SUPERIOR TESTERS, INC. v. DAMCO TESTERS**

Before GEWIN, BELL and GODBOLD,
Circuit Judges.

PER CURIAM: The Petition for Rehearing is DENIED and no member of this panel nor Judge in regular active service on the Court having requested that the Court be polled on rehearing en banc, (Rule 35 Federal Rules of Appellate Procedure; Local Fifth Circuit Rule 12) the Petition for Rehearing En Banc is DENIED.